Bloomberg Businessweek

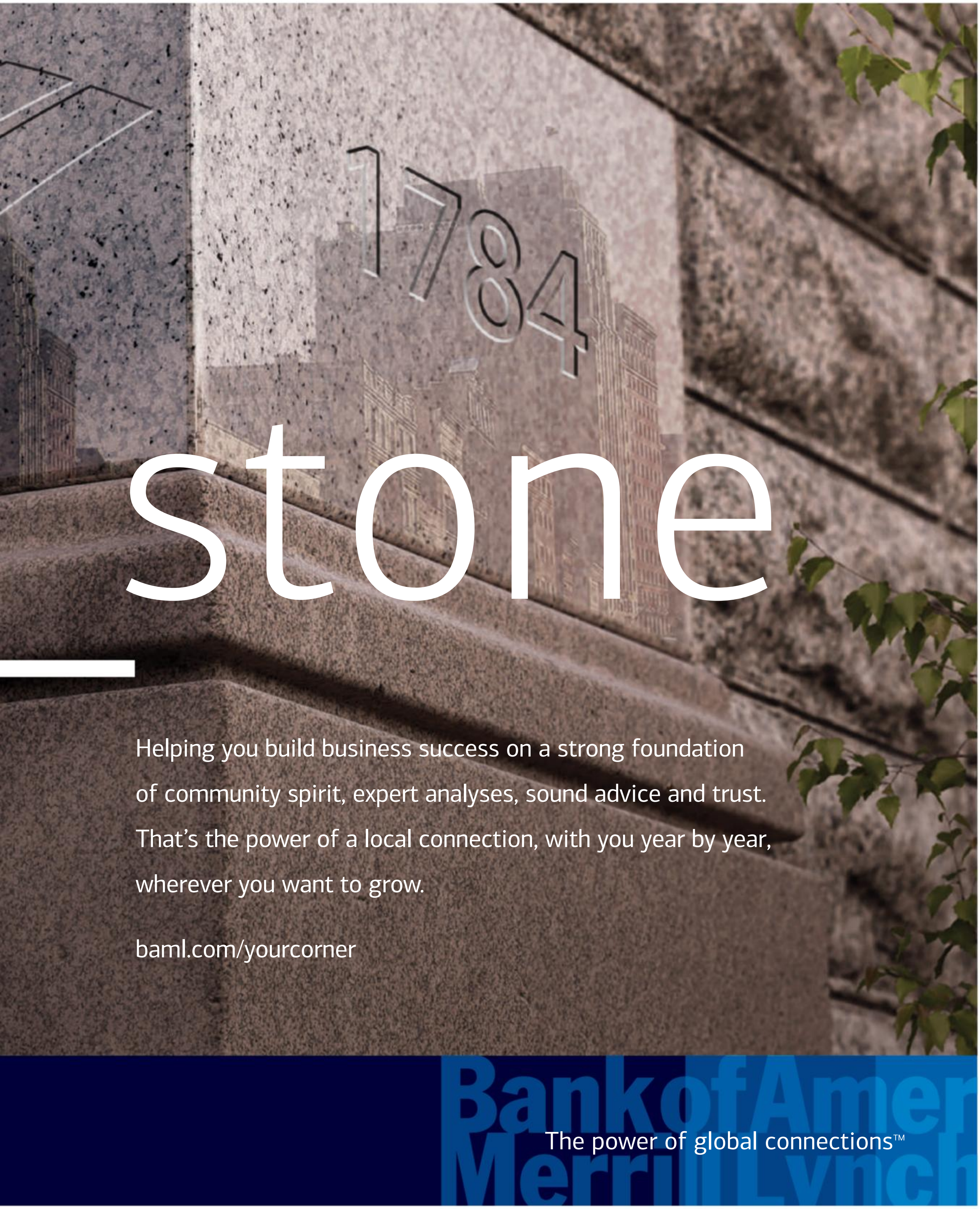
April 20 — April 26, 2015 | bloomberg.com

THIS CAMPAIGN HAS WORKED 4 DAYS WITHOUT MISMANAGEMENT, FACTIONALISM, OR INFIGHTING

Hillary Clinton can win the presidency. Managing her way there is another matter

p10


corner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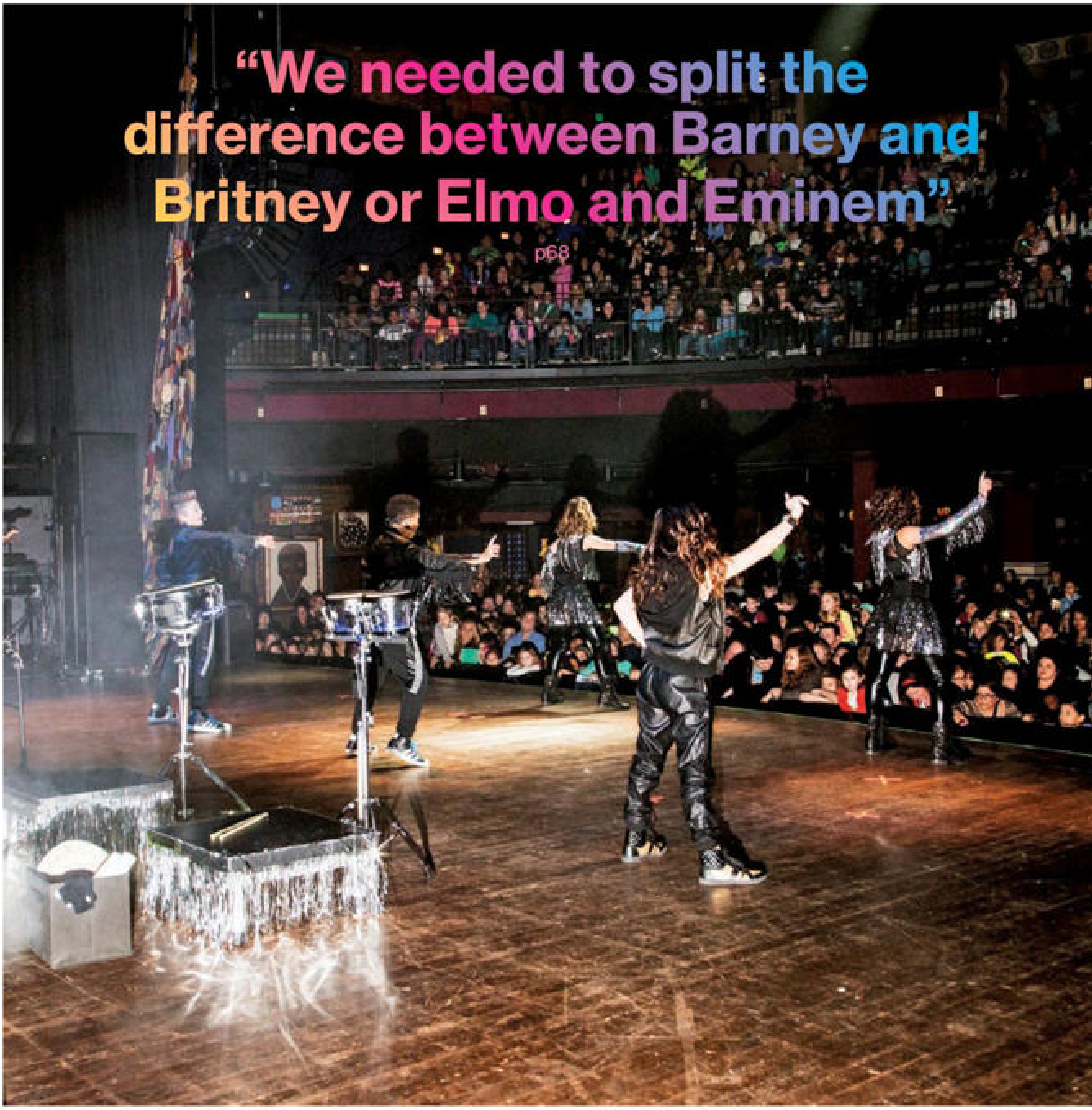

PHOTOGRAPH BY AMY LOMBARD FOR BLOOMBERG BUSINESSWEEK

Bloomberg Businessweek

April 20 — April 26, 2015

COVER: ANDREW BURTON/GETTY IMAGES

Cover Trail

How the cover gets made

1

"The cover is on whether Hillary Clinton can effectively manage her campaign. The last one didn't go so smoothly."

"I am 100 percent confident we can find a photograph of her that is significantly more compelling than the thousands that have run on every news site, blog, magazine cover, and newspaper."

"You are?"

"No, I have no idea what to do."

"Well, if the idea is that disaster could happen at any moment, we could take the workplace safety signs that show the number of days since an accident and apply it to the campaign."

"Perfect. All-type cover."

2

"I think we need to see Hillary somehow."

3

"A teeny line drawing of her face?"

"Maybe a little more of her."

4

"You definitely wouldn't confuse her hair with Marco Rubio's."

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Corrections & Clarifications
In "Trading Floors Can't Feed Africa" (Markets/Finance, April 6-April 12, 2015), we said Mondelēz International planned to increase production of coffee from Ethiopian beans 50 percent in two years. In fact, the company is trying to increase Ethiopian coffee farmers' yields 50 percent.

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SIEMENS

Advanced-Technology Trains Come Stateside

The next phase of high-performance, energy-efficient passenger rail is here

Each year, more than 11 million passengers ride the high-speed route of the Northeast Corridor, the longest electrified stretch of rail in the United States (453 miles) that connects Boston to Washington, D.C., with stops in New York City, Philadelphia and Baltimore. This heavily traveled route services 75 percent of public-transport passengers between New York and the nation's capital, and primary rail operator Amtrak is focused on investing and modernizing this critical line to ensure it can deliver the reliable service the region depends on. Their first step: an all-electric locomotive that can operate at speeds of 125 mph, while simultaneously reducing environmental impacts.

Placed into service in February 2014, the Amtrak Cities Sprinter (ACS-64) ushers in the nation's next era of passenger rail. Not only does the locomotive deliver enhanced mobility and reliability to a vital economic region, but it does so while incorporating transformative green technologies—regenerative braking that feeds power back to the network, advanced monitoring and diagnostic systems—that will accelerate an industry that many believe has been lapped by Europe.

Better for the environment and the bottom line, it's estimated that the increased energy efficiency of the ACS-64 fleet could result in more than $300 million in savings over the next 20 years, providing an important contribution to a domestic rail renaissance. "It is definitely a new step in a new era of transportation," says Michael Cahill, President of the Rail Systems Division for Siemens, the locomotive's manufacturer. "One of the key elements here is bringing newer, more efficient, proven technology into play."

The same holds true for another Siemens project, All Aboard Florida, which will provide an alternative to air and road travel along the 240-mile stretch from Miami to Orlando—the two most populous markets in the state with the country's third-largest economy. Since the express passenger rail service shares this line with freight trains, complete electrification wasn't an option, so Siemens' answer was a diesel-electric locomotive, the Charger, which will operate at 125 mph.

By adapting to the unique circumstances in the Sunshine State, Siemens, which will also make All Aboard Florida's passenger coaches, proved to be the perfect partner. "Siemens had the most innovative response to our business's rolling stock needs," explains Mike Reininger, president of All Aboard Florida. "Because the team was able to produce a locomotive that met our speed and environmental specifications, it gave us an economic profile that worked."

The entire country stands to benefit from this advanced technology in rail equipment. The trainsets will also be Buy America compliant. "These factors have a short-term positive effect for us, and a long-term positive effect for the whole industry," says Reininger. In addition to the AAF project, the diesel-electric Charger is also the cornerstone of a five-state initiative meant to enhance mobility and improve reliability and efficiency along key passenger-rail corridors.

Thanks to Siemens' Made in America supply chain—the ACS-64 alone features components sourced from more than 50 suppliers, manufacturers and distributors in over 20 states—the entire industry benefits. "There are tens of thousands of parts in a train, and getting those to the right places at the right times means you must have a robust supply chain," Cahill explains. "That's where our 30 years of experience in the U.S. and all of North America works to our advantage."

That experience has been forged at Siemens' manufacturing headquarters in Sacramento, Calif., a state-of-the-art facility with more than 850 employees that derives 80 percent of its power from solar panels. These were installed by Siemens in 2006—well before green tech grew trendy—in yet another example of how the company always keeps one eye on the future. With more high-speed, high-profile rail projects in the planning stages from Missouri to California, and expansion plans well underway to manufacture advanced-technology passenger rail equipment, there is little doubt Siemens will continue to be a crucial cog in the nation's comprehensive transportation network, one that will stimulate economic development, safeguard the environment and put the country on the right track. — *Mike Olson*

How Not to Manage a Campaign

By Joshua Green

The last time Hillary Clinton was riding high as a presidential candidate was March 5, 2008. She had just beaten Barack Obama in the Ohio and Texas primaries. Outwardly, Clinton finally seemed to have found her voice. She had momentum. But on the inside, her campaign was coming apart. Top lieutenants were bitterly divided into rival camps, pushing contrary strategies. One side wanted Clinton to attack her upstart opponent. The other urged her to display a softer, more feminine side to build support. Mostly, though, her advisers were consumed with destroying each other, as a flood of leaked e-mails later made clear.

The glow of her victories didn't last. On the front page of the next day's *Washington Post*, the feuding and back-stabbing spilled into public view: "Even in Victory, Clinton Team Is Battling Itself." This proved too much for Robert Barnett, the Washington superlawyer and longtime adviser to the Clintons, who fired off an e-mail lighting into her senior staff: "STOP IT!!!! I have help [sic] my tongue for weeks.

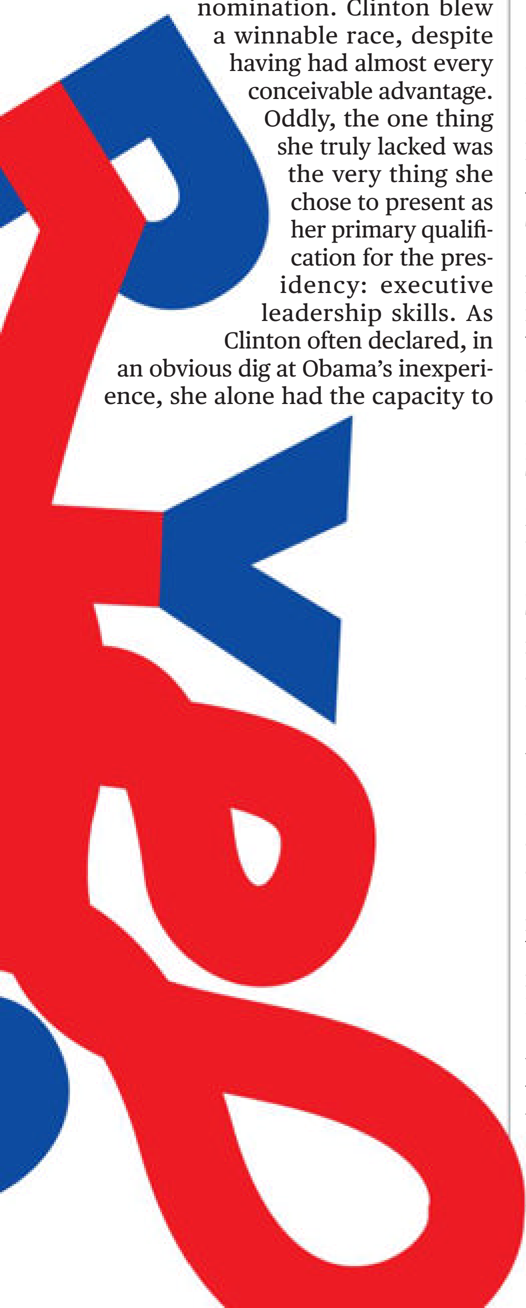
Time has obscured the reason for her 2008 defeat: Clinton lost a winnable race because she didn't exercise executive skill

After this morning's WP story, no longer. This makes me sick. This circular firing squad that is occurring is unattractive, unprofessional, unconscionable, and unacceptable.…It must stop."

It didn't. Clinton's campaign never adjusted and finally collapsed, brought down by the chaos she allowed to flourish.

The seven years since Clinton's last presidential bid have induced a kind of amnesia about the true reason for her loss, a subject newly relevant now that she's running again. Several factors cloud our ability to recollect it clearly: the passage of time; Democrats' desire to put a bruising primary race behind them; and, above all, the mythologizing of Obama's campaign brain trust, which cast him as a figure of destiny and her as someone history could sweep aside.

Obama was indeed a rare talent, but his skill alone wasn't what cinched the nomination. Clinton blew a winnable race, despite having had almost every conceivable advantage. Oddly, the one thing she truly lacked was the very thing she chose to present as her primary qualification for the presidency: executive leadership skills. As Clinton often declared, in an obvious dig at Obama's inexperience, she alone had the capacity to "do the job from Day One." Yet whatever management skills Clinton may possess, she didn't deploy them in 2008.



Although Clinton herself received Barnett's e-mail and many more like it, she didn't act, and the feuding carried on. In his e-mail, Barnett promised that a reckoning would come soon enough. "After this campaign is over, there will be plenty of time to assess blame or claim credit," he wrote. But the imperative after Clinton's grudging, drawn-out concession was to project an image of Democratic unity so as not to impede Obama's path to the White House. The assessment never came. Instead, when the Democratic primary campaign was over, many of her top advisers leaked internal e-mails and strategy memos—I was the grateful recipient of many of these—that provide the best glimpse of Clinton's management shortcomings.

The disputes first arose over how Clinton should present herself. In a series of memos, her chief strategist, Mark Penn, urged her to be "the power candidate" because most voters "see the presidents as the 'father' of the country [though] they are open to the first father being a woman." Penn viewed Margaret Thatcher as a model and counseled Clinton not to concern herself with "good humor and warmth." He wrote, "We are more Thatcher than anyone else.…We want to intimidate." Throughout the campaign, Penn and Bill Clinton favored aggressive attacks.

Other senior advisers, such as Harold Ickes and Mandy Grunwald, disagreed. They rejected the "Iron Lady" strategy and pushed Clinton to emphasize her softer side, worried that attacking Obama would only deepen the impression of Clinton as imperious and aloof. Throughout the primaries, Clinton vacillated between hard (attacking Obama) and soft (crying in New Hampshire), never settling on a strategy.

Within the campaign, leaks became the weapon of choice to influence decisions. Early on, Clinton's deputy campaign manager, Mike Henry, wrote a memo pointing out the steep cost and risk of competing in Iowa, since, if Clinton lost there, it would shatter the idea of her inevitability. "This effort may bankrupt the campaign and provide little if any political advantage," he wrote. Henry's memo was leaked to the *New York Times*, forcing Clinton to commit to competing in the state—which Obama won, destroying, sure enough, any sense that she was unbeatable.

Things got so bad that someone upset over losing a parking spot even leaked an e-mail demanding that junior staffers move their cars to free up spaces for the campaign manager, Patti Solis Doyle, and her staff. The intention was simply to embarrass Doyle.

Leaked internal e-mails and memos provide the best glimpse of Clinton's management shortcomings

By April 2008, Doyle had been replaced and Penn sidelined, but still the chaos rolled on. Advisers leaked and freelanced to the press with impunity. "I don't mean to be an asshole," the pollster Geoff Garin, Penn's replacement, wrote in an April e-mail intended to buttress the campaign's lead spokesman, "but Senator Clinton has given Howard Wolfson both the responsibility and the authority to make final decisions about how this campaign delivers its messages." That e-mail was also leaked.

Meanwhile, the Clinton campaign so badly mismanaged its finances that it lacked the resources to compete, even after the candidate made a personal loan of $5 million. From the outset, she seemed to operate from the premise that the Clinton brand was invincible, which bred complacency and left her vulnerable to a nimble challenger. In fact, Clinton's downfall was not so different from that of General Motors, another storied American brand sliding toward bankruptcy that summer due to mismanagement.

Obama would eventually bail out GM, and he rescued Clinton from political bankruptcy, too. Today, both are thriving. Making Clinton secretary of state provided her with a platform to rebuild her career. Clinton has always been a mediocre candidate on the stump, but over the years she's made herself into a supremely effective politician. Much as she did during her Senate tenure, Clinton used her time at the Department of State to rehabilitate her political image. She did so mainly by dint of hard work, though she also was willing to subordinate her ego and ambition to someone else's, at least for a spell.

As secretary of state, Clinton won near-universal respect and a reputation for brisk competence, all while managing to avoid taking any major risks that might have set her back. (Republicans are trying to anyway, over her handling of the 2012 Benghazi attacks.) Her billboard achievement at Foggy Bottom—a detail that manages to find its way into every book, speech, and profile about her—is that she logged nearly a million miles jetting back and forth across the globe, a portrait of diligence in service to her country. During this period, her favorability ratings soared. Clinton entered ▶

the State Department in January 2009 surrounded by question marks; by the time she left in February 2013, she was the Democratic-nominee-in-waiting.

That impression has only deepened as potential opponents such as Senator Elizabeth Warren of Massachusetts have opted not to run. Those who do appear likely to challenge her (Martin O'Malley, Jim Webb) barely register in the polls and have little hope of securing the political talent and resources necessary to pose a threat. Despite the insistence of those in Clinton's inner circle that she doesn't consider herself the "inevitable" nominee, that's what she appears to be. This time, no Obama-like figure is likely to test her.

The danger for Democrats, then, is that Clinton won't come under any real pressure until next summer, when she faces the Republican nominee. No one knows whether she'll be able to guide her campaign through adversity or whether she'll again be the agent of her own undoing. Does CEO Clinton really exist or not?

She's taken several obvious steps in the right direction, such as appointing a strong chairman, John Podesta, to prevent any more damaging factionalism, and seeking to ease the mutual antagonism with the press. As her April 12 video announcing her candidacy confirmed, she'll focus squarely on the issue of middle-class economic advancement, in counterpoint to Democrats' disastrous micro-obsessed campaigns in the last midterm elections.

But there have also been pointed reminders of the candidate who never settled on a strategy, tried to be all things to all people, and lost. Clinton's long delay in addressing the uproar over her private e-mail server while at State was, according to *Politico*, the result of differences among her advisers about when and how to respond. The tense press conference that followed was more old Hillary than new.

To improve the culture, Clinton has made a point of keeping many of her quarrelsome old advisers at arm's length and seeding her new operation with veterans of the "no-drama" Obama campaigns. But Clinton advisers never really go away; they just fall back and await their moment to return. This is probably why Clinton chose a new campaign manager, Robby Mook, who isn't only experienced in Obama's data-driven culture but also has a reputation for gracefully handling outsize egos while keeping them at a distance. Knowing what he might encounter, Mook sent a memo in early April urging an attitude of positivity and cooperation. Lovely sentiment, but it may not be sufficient. Even Penn, Clinton's chief strategist in the last campaign, made early gestures of goodwill, such as presenting his senior colleagues silver bowls etched with the words of Horace Mann: "Be ashamed to die until you have won some victory for humanity." It didn't keep the campaign from imploding. Huma Abedin, Clinton's close aide for years, has been installed just beneath Podesta as the campaign's vice chair.

Perhaps the biggest management challenge of all is the one she's married to. Bill Clinton can be any candidate's most effective advocate, as Obama discovered at the 2012 Democratic convention in Charlotte. But in 2008 he was mostly a liability, offending many Democratic voters with comments that demeaned Obama's victory in South Carolina and referring to his opposition to the Iraq War as "the biggest fairy tale I've ever seen."

All this year's careful planning and creative imagery—the upbeat video, the Iowa road trip—intended to distinguish Clinton from the candidate who ran in 2008, won't matter if she hasn't realized that her own shortcomings are what doomed her then. She's the only one with plausible authority to direct her own campaign. And the best way to assert control over her new operation would be for her to develop what was so sorely missing last time—a clear, overarching justification for her candidacy.

The best rationale for Clinton 2016 is the same one embedded in the attacks Republicans are already making: that she's a creature of Washington who embodies the past, and it's time for a new face and an outsider. Clinton can't avoid this critique. But she can subvert it by presenting her two decades in the White House, Senate, and State Department as experience that's left her uniquely equipped to do what polls say Americans are pining for: Make Washington function better.

Clinton has always been called a polarizing figure (an increasingly meaningless designation that applies to every national politician, as voters have become more partisan). But she has an underappreciated credential that could be a weapon in the upcoming race: a record of thriving in an acrimonious, Republican-dominated climate like the one we have now.

In 2000, the same year George W. Bush was elected on the promise to be "a uniter, not a divider," Clinton won a New York Senate seat. The Senate majority leader, Trent Lott, captured the prevailing Republican animus toward her when he suggested that she might get "hit by lightning" before taking her seat.

During most of her time in the Senate, Lott's party controlled one or both houses of Congress and the White House. Clinton couldn't ignore hostile Republicans. "The thing about Hillary, whether you like her or not, is that she wants to make progress on issues," says Neera Tanden, president of the Center for American Progress and Clinton's former legislative director in the Senate. "I worked for her at a time when Democrats were in the minority, so you really couldn't make any progress without Republicans. Back then, Congress didn't feel superfunctional. But she developed really good relationships, particularly with John McCain and Lindsey Graham."

By the time she left the Senate, Clinton, not Bush, had proved to be the uniter. By my count, she teamed up on legislation with 49 different Republicans, including such notable critics as Lott, Graham, and even Tom DeLay, all three of whom were key figures in her husband's impeachment.

As voters begin contemplating who should become the next president, Clinton can, if she chooses, make the strongest claim that she's best suited to manage in the deteriorating conditions in Washington. How much will that matter? Probably more than at any time in the recent past. Beneath Americans' intensely negative feelings toward Washington, and Congress in particular, lies an appreciation that the job of making the government function effectively will require more than just a new occupant in the Oval Office. A *Washington Post*-ABC News poll last month found that more Americans desire "experience" (55 percent) than "a new direction" (37 percent) in a presidential candidate. Clinton's old line about her readiness to "do the job from Day One" may be more compelling this time around.

A steady majority of Americans continues to tell pollsters that they want compromise from Washington. Here, too, Clinton may have hidden appeal. A recent Pew Research Center poll found they believe by a 4-to-1 margin that women are better at working out compromises than men.

It would be no small irony if the exhaustion with partisanship that these numbers show turned out to be a positive, rather than a negative, force for Hillary Clinton. Of course, the prerequisite to any claim that she can make Washington function more effectively is that Clinton first pass the test she failed before—and run a professional campaign. Ⓑ

The best way to assert control over her new operation is to develop a clear, overarching rationale for her candidacy

To read David Kahn on the NBA playoffs and Edward Niedermeyer on Obama and electric cars, go to

Bloombergview.com

When to Get Into The Asteroid Market

Investors see riches in space rocks. Keep your feet on the ground

NASA has identified about 12,000 space rocks orbiting in earth's cosmic vicinity. A small but ambitious group of investors has a novel plan for these celestial neighbors: They hope to mine them for fun and profit.

It's an appealing possibility and not entirely crazy. Asteroids are likely rich in two resources: platinum (and related metals) and water. The metals might be worth a fortune if they could be cheaply transported home. And the water—more intriguingly—could prove instrumental in enabling spacefarers to travel long distances. It could provide fuel for spacecraft, protection from cosmic radiation, and sustenance for explorers. Fueling up in space would drastically cut costs by reducing loads at liftoff.

One problem: All this is quite possibly illegal.

Commercial activities in the cosmos are governed by an international treaty regime, including the Outer Space Treaty of 1967, which forbids claims of sovereignty in space. While the drafters clearly envisioned the extraction and use of resources from celestial bodies, the legal status of the loot has long been contested.

That ambiguity should be resolved. But negotiating a new treaty would be onerous and possibly futile. Instead, the U.S. should collaborate with other nations to reach an agreement on general principles for outer-space resource extraction. Joanne Gabrynowicz, professor emerita at the University of Mississippi, suggests a model could be the Inter-Agency Space Debris Coordination Committee, a group of agencies that set guidelines for space junk that eventually were adopted through the United Nations.

A similar group might agree to guidelines for space mining. For instance, it might require a company's claim on an asteroid be limited in time and location. It might also require miners to take steps to develop their claim before being granted ownership rights and to work with scientists. In the U.S., Congress could help by specifying what agency should regulate such enterprises and by articulating clear licensing requirements.

Investors would then be more confident that mining companies are lawful, that property rights will be respected, and that a forum exists for resolving disputes or registering objections.

All of which isn't to say that space-mining operations would be successful. A profitable venture requires a market, which won't materialize soon. Asteroids are diverse and understudied, and they may be harder to exploit than hoped. There's currently no economically viable way of delivering mined products to earth.

Even if these initial ventures fail, they could advance science. They might assist space agencies in learning more about asteroids, which could help mitigate the threat of collisions with earth. They could offer a chance to experiment with engineering, resource extraction, and manufacturing in space.

Such research is likely to be a critical prerequisite to a sustained human presence in the cosmos. That, in the end, would be far more rewarding than an asteroid's worth of platinum.

A Loophole to Tax the Tories

The so-called non-dom exemption has become a big election issue

As U.K. elections approach, the Labour Party has found a nice stick to beat up Prime Minister David Cameron and the Conservatives. Labour leader Ed Miliband has called for an end to a long-standing tax loophole that benefits the footloose rich.

As well as being popular, Labour's proposal is correct. Non-domicile, or non-dom, status is an anomaly that should have been scrapped years ago. The rules allow people to live and work in Britain while claiming another country as their "domicile." Once granted this status and upon payment of a fee, non-doms can pay tax only on their U.K. earnings; foreign earnings aren't subject to U.K. taxes unless they're remitted to Britain.

The vast majority of U.K. residents pay taxes on all their income, wherever it comes from. This goes for most of the rich as well. For non-doms, it's different. While they might live in Britain year-round, might even be British, they can shelter their foreign income from taxes by establishing a qualifying connection to another country through inheritance or by other means.

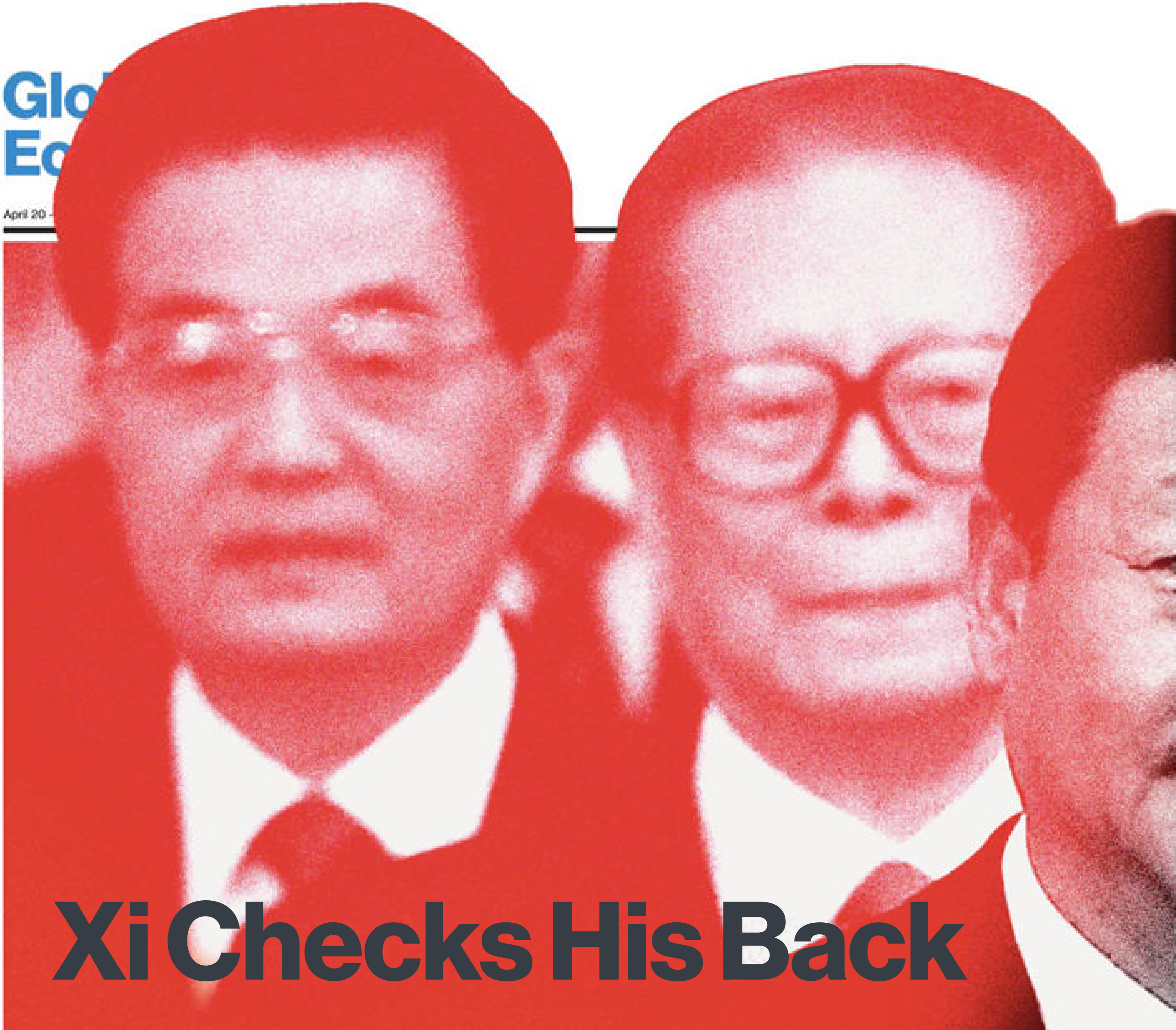
If thousands of wealthy people left London, taking their spending with them, the losses wouldn't be limited to forgone tax receipts. This is the Tories' justification for retaining the loophole—even though the popularity of Labour's plan has persuaded them to make it somewhat smaller.

All tax systems have to balance efficacy with fairness. The very rich are mobile, so it might be efficient to tax them at lower rates than the less well-off to persuade them to stay put. But such dispensation is also unfair, and most voters won't stand for it.

Basic fairness isn't too much to ask of a tax system, even if it comes at some modest cost. Residents with identical incomes and circumstances should be asked to pay the same tax. It's also right that the very rich pay moderately higher taxes than people whose incomes are lower. Non-dom status violates both principles.

London is one of the best cities in the world in which to live and work, and it has a lot more going for it than a friendly tax regime for a small number of its wealthiest residents. Ending the non-dom loophole is a risk worth taking. B

PHOTO ILLUSTRATION BY OTHER MEANS; GETTY IMAGES (3)



Xi Checks His Back

▶ China's president is trying to eliminate his predecessors' influence

▶ He's "using corruption as a potent weapon to take out or at least silence any critics"

Chinese President Xi Jinping's anti-graft crusade has touched so many and lasted so long that many political watchers are looking for additional motives for the crackdown. Besides attacking corruption, they say, Xi is using the campaign to neutralize party elders who want to influence policy. "One of Xi's goals is indeed fighting corruption," says Willy Lam, a professor at the Chinese University of Hong Kong and author of a just-released book, *Chinese Politics in the Era of Xi Jinping*. "But the other is using corruption as a potent weapon to take out or at least silence any critics. It is part of a Machiavellian tactic to consolidate power." Lam is one of five academics with decades of China-watching experience who were interviewed for this story.

One former leader on whom Xi keeps an eye is 88-year-old former President Jiang Zemin. Lam says China's feared graft-busting agency, led by Xi's right-hand man, Wang Qishan, has likely investigated possible financial wrongdoing by Jiang Mianheng, Jiang's eldest son, who has sat on the board of **China Netcom**, co-founded **Grace Semiconductor Manufacturing**, and has been a door opener for U.S. companies. Earlier in his career his nickname was the Prince of IT for his role in brokering deals. He is now president of ShanghaiTech University. Lam says government sources inform him that Jiang Mianheng "is under tight surveillance and not allowed to leave the country. In a sense, Xi has used him as a sort of hostage to intimidate Jiang Zemin and keep the old man in line." The younger Jiang has never been prosecuted for any crime, financial or otherwise. Questions faxed to Jiang Mianheng's office were not answered. Efforts to obtain comment from President Xi's office and from Jiang Zemin were unsuccessful. Telephone calls to the agency Wang heads, the Central Commission for Discipline Inspection, weren't answered.

The elder Jiang played a role in Xi's appointment, and he wants to be consulted for crucial party appointments, as was true during the presidency of his successor Hu Jintao, says Bo Zhiyue, director of the New Zealand Contemporary China Research Centre at Victoria University of Wellington. Adds Bo: "Xi doesn't want to have that kind of relationship. He wants to be

CHINA DAILY/REUTERS; DATA: INTERNATIONAL MONETARY FUND, CENTRAL BANK OF NIGERIA, CENTRAL BANK OF THE RUSSIAN FEDERATION, SAUDI ARABIAN MONETARY AGENCY

Xi (right), with predecessors Hu and Jiang in September 2014

his own man." Efforts to reach former President Hu were unsuccessful.

Ensuring Jiang's acquiescence is even more important given Xi's plans to replace scores of officials appointed by Jiang during his 13-year reign, points out Ding Xueliang, a professor of social science at the Hong Kong University of Science & Technology. "He and Wang Qishan are aiming to get rid of many of the senior political cadres in order to open up positions for their own trusted comrades," particularly after the next Party Congress in 2017, which would mark the beginning of Xi's second term, says Ding. Many of the people Xi will choose to replace Jiang's supporters in official positions will come from Fujian and Zhejiang, the provinces where Xi served for many years, he says.

The pressure put on Jiang's followers is part of Xi's quest to secure his power even if it means flouting party convention. Before he stepped down from the presidency, Hu Jintao tapped his ally Hu Chunhua, or "little Hu," as Xi's most likely successor, just as Jiang helped Xi to the president's office. Today that outcome is uncertain. Xi will look for a candidate of his own choice, says Lam.

Chinese political websites based outside China say Xi could try to stay in office past 2022, after serving the traditional 10 years in power. "If Xi wanted to stay on, he would have to have very strong arguments and have to be very convincing," says Professor Bo.

As Xi tightens his grip on power, more officials are being brought to trial or accused of taking bribes and other financial crimes. A prominent case concerns state-owned **China National Petroleum** (CNPC), whose subsidiary, **PetroChina**, is the world's largest oil company by market value. On April 13, Jiang Jiemin, former head of CNPC, pleaded guilty to taking bribes and abusing power. His one-day trial took place in the Hanjiang Intermediate People's Court in Hubei province. "I relaxed my self-restraint," Jiang said, according to a summary of the proceedings released by the court. "I betrayed principles and gravely violated the party's rules and state laws, causing losses for the country that cannot be redeemed." The sentence will be decided later.

Investigators pursued corruption cases against 28 senior officials at the provincial or ministerial level last year, up from eight the previous year, according to a report released in March by China's Supreme People's Procuratorate, China's top prosecutor. The government also investigated more than 55,000 minor and senior officials for job-related crimes, including graft, in 2014—up 7.4 percent over the previous year, according to a report issued at China's National People's Congress in March.

"The campaign's continuing intensification has surprised most observers," says Ding. Top cadres being investigated include General Xu Caihou, previously a high-ranking commander, and 58-year-old Ling Jihua. Ling, a confidant of Hu Jintao, was replaced by Li Zhanshu, a close Xi ally, as head of the party's General Office. The agency is in charge of daily administrative work, including communications, setting agendas for meetings, and protocol issues. The most prominent rival of Xi's to be charged so far is 72-year-old Zhou Yongkang, the former head of China's security service, who was accused in state media of exchanging "money and favors for sex." Jiang Jiemin, the former oil company boss, has connections to Zhou, who had a career in the energy industry as well as security. Efforts to reach the accused through the prosecutor's office were unsuccessful.

Xi's ultimate goal "is to ensure the party's control over society, over the army, over the police, and over the state enterprise system," says Ding. Adds Jean-Pierre Cabestan, director of government and international studies at Hong Kong Baptist University: "Xi wants to make China rich and powerful and able to compete with the U.S. on an equal level. If China does not clean its own house, that goal—and the prosperity it has enjoyed—will be put in jeopardy."
—*Dexter Roberts*

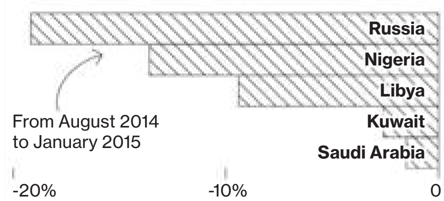
The bottom line Chinese President Xi is amassing power by replacing cadres appointed by earlier presidents.

Budgets

The Oil States Break Open the Piggy Banks

▶ With the price of crude down 50 percent, reserves get spent fast

▶ Decline in Currency Reserves



In the heady days of the commodity boom, oil-rich nations accumulated hundreds of billions of dollars from selling their crude and natural gas abroad. As a result, the foreign currency reserves of the largest petro states peaked at $2.5 trillion in mid-2014. These countries—Algeria, Angola, Kazakhstan, Nigeria, Russia, Saudi ▶

Arabia, and others—invested in U.S. debt and other securities. They bought trophy assets such as the Manhattan headquarters of Time Warner, the Paris Saint-Germain Football Club, and luxury homes in London, helping to drive the price of such assets sharply up.

Now that oil prices have dropped 50 percent, to $50 a barrel, Saudi Arabia and other commodity-rich nations are quickly spending their petrodollar reserves instead of adding to them. After six months of lower prices, some resource-rich countries, such as Algeria, are burning through their dollar savings at the fastest pace in at least 25 years.

Oil-rich countries earn dollars selling their oil, either directly through state-owned companies or indirectly through royalty payments from foreign oil companies operating on their soil.

It's not an ideal business model when prices are plunging. If prices of oil and other commodities remain depressed, the trend of eating into reserves will cut demand for everything from European government debt to U.S. real estate as oil producers sell their foreign assets to replace lost export revenue. "The shock for oil-rich countries is enormous," says Rabah Arezki, head of the commodities unit at the International Monetary Fund in Washington.

The IMF commodity index, which tracks the price of a broad range of natural resources from iron ore and oil to bananas and copper, fell in January to its lowest point since mid-2009. Although the index has recovered a little since then, it's still down more than 40 percent from the record high set in early 2011.

The drop in foreign reserves, revealed in data recently released by central banks and the IMF, spreads across commodity-dependent nations, from oil producer Oman to copper-rich Chile and cotton-growing Burkina Faso. Reserves are dropping twice as fast as they did during the last commodity slump, in 2008-09.

Saudi Arabia, the world's largest oil producer, is the prime example of the swiftness and magnitude of the selloff: Its foreign exchange reserves fell $20.2 billion in February, the biggest monthly decline in at least 15 years, according to data from the Saudi Arabian Monetary Agency. That's almost double the drop in early 2009, when oil prices plunged following the global financial crisis and Riyadh consumed $11.6 billion of its reserves in a single month. Fortunately for the Saudis, they have more than $700 billion in reserves.

The world has changed a lot since 2009. The Arab Spring was a sharp reminder to Arab states that they should spend generously on social programs for their poorer citizens, to avoid further unrest. As long as commodity prices were rising, spending on new public housing, education, and higher salaries for government workers wasn't a burden for many oil states. With the 50 percent drop in the price of the Brent oil benchmark, these countries have to spend reserves to keep social programs going.

David Spegel, head of emerging-markets sovereign credit research at BNP Paribas in London, estimates that oil-rich countries will sell more than $200 billion of assets this year to bridge the gap left between high fiscal spending and low revenue. "This is the first time in 20 years that OPEC nations will be sucking liquidity out of the market rather than adding to it through investments," he says.

> "This is the first time in 20 years that OPEC nations will be sucking liquidity out of the market rather than adding to it through investments."
> —*David Spegel, BNP Paribas*

The drawdown reverses a decade-long flow into the coffers of commodity-rich nations. Those countries bought sovereign debt from the U.S., Japan, and Europe in such volume that some analysts say they helped keep borrowing costs down. Now they're in a selling mood. George Saravelos, strategist at Deutsche Bank, said in a note to clients that Middle East countries were most likely to sell low-yielding European sovereign bonds.

Tracking the change in overseas investments by commodity-driven economies—and their impact on global markets—is difficult. Not all of these countries release timely data, and some don't disclose the size of their sovereign wealth funds and the nature of their investments. The data that exist show foreign savings by commodity-rich nations dropping across the board. In Algeria, one of the largest gas exporters, reserves fell $11.6 billion in January. In Angola they dropped $5.5 billion last year, the biggest decline since the country started keeping records 20 years ago. In Nigeria, foreign reserves fell in February by $2.9 billion, the biggest monthly decline since comparable data were first collected in 2010.

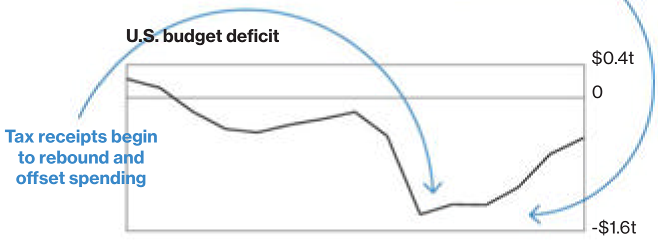
Saudi Arabia's finance minister said in February that the world's largest oil exporter had enough currency reserves to last for "quite some time." "We have learned from the past," Ibrahim Abdulaziz Al-Assaf told CNBC. "The oil market, everybody knows, goes through ups and downs and peaks and valleys." At the current rate of spending, the Saudis have enough reserves to last nearly three years.

Arezki of the IMF says that unless resource-rich nations cut domestic spending, they will "have no choice

PHOTO ILLUSTRATION BY 731; PHOTOS: ALAMY (1), GETTY IMAGES (2)

Benchmark bummer

The U.S. deficit has been shrinking lately, but an interest rate hike will be costly, r



Interest rate on 10-year Treasury note

2.0% 4.

For note issued on Feb. 17, 2015

2025 projection

The Congressional Budget Office projects the rate on the 10-year note will rebound after the Fed begins raising interest rates this year

but to draw on their financial assets when available" as oil prices remain well below the fiscal break-even point needed to balance their budgets. The IMF estimates that many oil countries would balance their budgets only if crude prices recovered to $75 or higher. —*Javier Blas*

The bottom line With oil prices down, many petro states are struggling to keep up the social spending that tamps down dissent.

Energy

State-Owned Areva Is Leaking Cash

▶ The company thought it had a winning nuclear reactor technology

▶ "Questions have to be asked about the state's oversight"

Nuclear plants supply almost three-fourths of France's electricity, and they boast a near-spotless safety record and some of the cheapest electric rates in Europe. In 2001 the government created a state-owned company, **Areva**, to export French reactors and nuclear know-how to the rest of the world. Those ambitions are now in tatters, offering an object lesson in the dangers of French *dirigiste* industrial policy.

Beset by a troubled new reactor design and other expensive problems, Areva posted a €4.8 billion ($5.1 billion) loss in 2014 on sales of €8.3 billion. Revenue is expected to shrink 5 percent this year, and the company says it expects to keep hemorrhaging cash. The French government plans to announce a rescue plan before the end of April that's likely to include asset sales and a bailout from state-owned utility **Electricité de France** (EDF). "There have been significant strategic errors," François Brottes, who heads the French Parliament's economic affairs commission, said at a conference in Paris on March 31. Added Brottes: "Questions have to be asked about the state's oversight."

Areva, along with competing reactor builders **Westinghouse Electric** and **General Electric**, was hit hard when orders dried up after the 2011 Fukushima accident in Japan. Cheap shale gas and development of renewable energy have compounded those woes. But "you can't really blame Areva's plight on Fukushima," says Steve Kidd, a British nuclear consultant and former executive of the World Nuclear Association, a London-based trade group.

Under longtime Chief Executive Officer Anne Lauvergeon and her successors, Areva bet heavily on a high-end new design, the Evolutionary Pressurized Reactor, that has been plagued with delays and cost overruns. Lauvergeon, who left Areva in mid-2011 when her contract wasn't renewed, didn't respond to messages.

French authorities reported on April 7 that flaws were found in some of the steel used in the reactor vessel of an EPR being built in Normandy. That reactor is five years behind schedule, and its price tag has ballooned from $3.5 billion to $9.3 billion. Areva also is facing an investigation of its 2007 acquisition of Uramin, a Canadian uranium mining company. In 2011, Areva wrote off almost all of the $2.5 billion purchase price after concluding that the ore deposits were of negligible value. The government's chief auditor, who faulted management for inadequate oversight and possible "dissimulation," asked prosecutors to look into the Uramin purchase.

The next step for Areva may be a tieup with EDF, its top customer—an idea that horrified the utility's investors, who dumped the stock after Energy Minister Ségolène Royal suggested it in March. Other government officials have suggested that Areva might work with EDF on engineering and maintenance, stopping short of a full merger.

$5.1b

Areva's loss in 2014, on sales of $8.9 billion

The company still makes money supplying fuel and reprocessing waste for nuclear plant owners. It's already clear, though, that Areva won't be selling many new reactors. North American and European utilities stopped ordering them after the Fukushima accident, and the EPR's problems have cast a pall over the company's prospects in China, which now accounts for more than half of the new reactors expected to come online by 2030. Thanks to past collaboration with Areva and other Western suppliers, the Chinese have developed the technology they need to build their own reactors, says Steve Thomas, a professor at the University of Greenwich in England who studies the industry. The reactors built by Areva and Westinghouse "are just too expensive for the Chinese," he says.

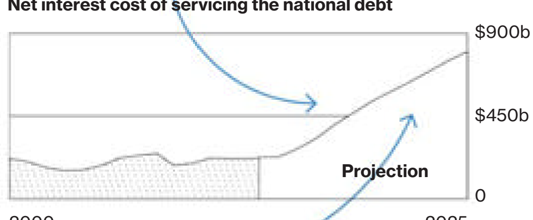
The French government's 80 percent ownership of Areva helped mask its problems, consultant Kidd says. ▶

making the national debt more expensive to service

.6%

With the quantity of debt also rising, interest costs in 2023 will exceed the projected budget for defense

Net interest cost of servicing the national debt



BASED ON REPORTING BY KASIA KLIMASINSKA; DATA: U.S. TREASURY, CONGRESSIONAL BUDGET OFFICE

◀ "Everyone was laughing" at the company's projections for reactor sales, he says. "Everyone in the know could tell the chickens were going to come home to roost. I don't think that would have happened in a private business." —*Carol Matlack, with Francois de Beaupuy and Tara Patel*

The bottom line Areva's bid to be the globally dominant maker of reactors was undone by cost overruns and strategic blunders.

Manufacturing

On the Java Sea, a New Shenzhen Is Born

▶ Indonesia wants to be the next great low-cost manufacturer

▶ The "China boom was really bad for the Southeast Asia economies"

On the north coast of the island of Java in Indonesia, work has started on Kendal Industrial Park, which will feature its own power station and water treatment plant and, say its backers, as many as 190,000 manufacturing jobs. It's part of a grand plan to turn the fishing villages of Wonorejo and Mororejo into an export city, with a container port nearby and a highway to Jakarta, 470 kilometers (292 miles) away.

The Indonesians are trying to emulate the example of Shenzhen, the once-marshy village in southern China that became the heart of that nation's industrial expansion in the late 1990s. Now China is too expensive for many factories, and companies are looking for lower costs and cheaper labor. "The great China boom was really bad for the Southeast Asia economies," says Tim Condon, the Singapore-based head of Asia research at ING Groep. "With the China slowdown, all that moves in reverse. Southeast Asia's manufacturing sector is the big winner."

This change in fortune has triggered a contest among Southeast Asian nations looking to lure investment. Vietnam promotes its high-technology parks and the Philippines its young, English-speaking population. Indonesia's strengths are its status as the area's biggest economy and some of the lowest wages in the region. Workers in Central Java, the province of 30 million people where the industrial zone is being built, earn as little as 50¢ an hour—less than $100 a month. In Vietnam, the minimum monthly wage is $146; it's about $200 in the Philippines and $240 in Malaysia.

The bid to appropriate a chunk of China's manufacturing is part of Indonesian President Joko "Jokowi" Widodo's effort to wean his country off its dependence on the exportation of minerals and palm oil. In 2001, at the start of the China-driven boom in energy and mining, 52 percent of Indonesia's export revenue came from commodities and 20 percent from manufactured goods, according to data compiled by Bloomberg. A decade later commodities accounted for 68 percent, while manufacturing slid to 14 percent.

Manufacturing Labor Costs Per Hour

Indonesia	$0.50
Vietnam	$2.06
Philippines	$2.44
Malaysia	$2.97
China	$3.25
Russia	$3.26
Turkey	$5.29
Mexico	$6.83
Brazil	$9.88
U.S.	$38.13

Indonesian factory owners have had to struggle with bureaucracy, corruption, and poor infrastructure. Those drawbacks make the Shenzhen model attractive: Create a special zone with ▶

Making wigs at Bio Takara's factory in Purwokerto

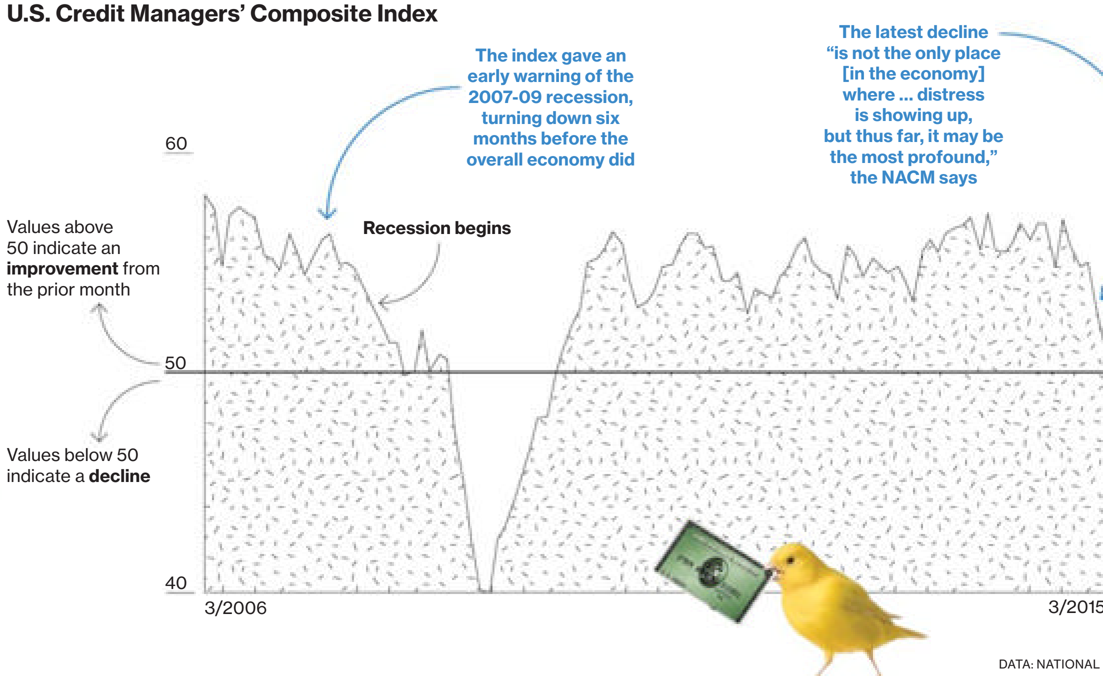
DIMAS ARDIAN/BLOOMBERG

Credit A Canary in the Coal Mine

Company credit managers are paid to spot trouble early; they let business customers buy on credit and collect from delinquent accounts. They've abruptly turned bearish, more than since the end of the 2007-09 recession. "Some serious financial stress is manifesting in the data," the National Association of Credit Management announced on March 31 as it released its monthly Credit Managers' Index. The strong dollar and the outlook for rising interest rates may be factors, says NACM economist Chris Kuehl. ——*Peter Coy*

"I'm really looking forward to next month in a perverse way. If I see it again in April data it's going to be a big concern." ——*Chris Kuehl, NACM*

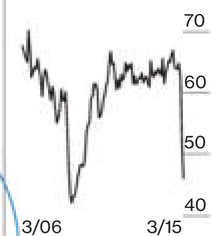
U.S. Credit Managers' Composite Index



Two trouble spots

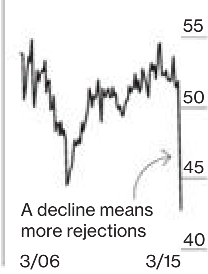
1 Healthy companies, turning cautious, aren't asking for credit:

Amount of credit extended, index value



2 Unhealthy companies are seeking more credit but being turned down:

Rejections of credit applications, index value



DATA: NATIONAL ASSOCIATION OF CREDIT MANAGEMENT

◀ its own port, power, and facilities as well as streamlined approvals for investors. Special economic enclaves are popping up in Southeast Asia from Laos to East Timor. Indonesia has at least eight, but most are on islands other than Java, where half the nation's 250 million people live.

In Semarang, the nearest city to the Kendal industrial zone, workers are busy expanding the former Dutch colonial port, lengthening the wharf and increasing storage capacity in what is already one of Indonesia's largest container terminals. Train tracks are being laid to connect the port to Java's rail network.

Central Java's exports of textiles, footwear, furniture, and other goods have already increased 46 percent over the last four years, the local Java investment board says. At **Bio Takara**, a false eyelash and wig plant in Purwokerto, a city of about 250,000 people, rows of female workers in leggings and Islamic head scarves sit knotting, threading, and snipping to the sound of a radio playing local pop music. The industry employs about 30,000 people manufacturing eyelashes, toupees, and wigs, turning synthetic hair and sweepings from barbershop floors into products for consumers worldwide.

In this labor-intensive business, wages account for about 80 percent of production costs, but Chinese eyelash makers can work without labor-enhancing equipment and still sell cheaper. "Productivity there is still a lot higher," says Amir Sudjono, who opened the first of Bio Takara's four factories eight years ago and exports to 21 countries. "We're banking on China getting more expensive."

Like China, Indonesia's huge population gives it plenty of workers and consumers who provide a sizable market in its own right. Balanced against that, the country has some of the worst infrastructure and bureaucracy in the region. Indonesia ranked 114th out of 189 in the World Bank's 2015 ease-of-doing-business survey, 100 places behind Malaysia and more than 30 below Vietnam.

"So many problems: shipping, materials, different regulations, different laws," says South Korean Lee Keum Dae, who moved his jewelry factory to Central Java from China three years ago when he could no longer get workers. "Many people want to move here. It's not that easy."

President Jokowi, a furniture exporter in Central Java before he entered politics, promises to simplify permits, upgrade ports and roads, and reduce government corruption. He's set a goal of 7 percent annual economic growth by the end of 2017. That would be up from last year's 5 percent. ——*Chris Brummit*

The bottom line Indonesia gets only 14 percent of its export revenue from manufacturing, while 68 percent comes from commodities.

Edited by Christopher Power
Bloomberg.com

PHOTO ILLUSTRATION BY MARK GLASSMAN; PHOTO: ALAMY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P&G Stops Making Sense

▶ **CEO Lafley is shrinking the behemoth to keep it manageable**

▶ **"Showing he can pivot when that's what the business demands"**

A.G. Lafley is lionized as the chief executive officer who built **Procter & Gamble** into the world's largest consumer-product company. During his first stint as CEO, from 2000 to 2009, he more than doubled the company's portfolio of billion-dollar brands and helped turn products such as Pampers and Crest into must-haves for the middle class from Buffalo to Beijing. The company's sales doubled and profits quadrupled during Lafley's nine-year tenure, allowing him to retire a hero in 2010.

With P&G ailing in the wake of the Great Recession, Lafley, 67, was coaxed back to the corner office in 2013, but his second act hasn't been nearly as triumphal. This time he's struggled with a far different challenge: tearing apart the house he built. P&G has simply become too large to compete effectively. Scores of its brands have lackluster growth prospects, yet they still require lots of management attention and marketing dollars. Sales inched up 0.6 percent in 2014, and profit rose 2.9 percent, a turnabout from Lafley's earlier double-digit gains. And while Wall Street initially cheered his return, P&G's shares have since climbed less than 7 percent, compared with a 27 percent gain for the Standard & Poor's 500-stock index.

To remake P&G and cement his legacy before returning to retirement—he's likely to step aside by the annual meeting in October, according to people familiar with his plans—Lafley is dropping as many as 100 product lines. The disposals probably include the Wella and Clairol hair-care businesses he acquired years before. That will leave P&G with 65 leading brands—including Tide, Bounty, and Gillette—that generate 86 percent of the company's $83 billion in revenue. "It's painful to dismantle something you built," says Davia Temin, who runs crisis management consultant Temin. "Most CEOs I've worked with, when faced with this, say, 'I'm a builder, let someone else shrink it.' But Lafley's showing he can pivot when that's what the business demands."

The question is whether a slimmer—but still giant—P&G will be sufficiently nimble to win back consumers who've defected to cheaper brands and to ▶

◀ compete with smaller rivals selling new natural and organic products. Analysts and others say that because he didn't take an ax to P&G's crowded stable of brands during his first tour of duty, Lafley has to move quickly now to revive sales.

P&G is among a growing number of large companies starting to question the benefits of scale. "Focus" is the latest boardroom buzzword as CEOs and directors debate the wisdom of managing multiple, often wildly divergent, product lines. **General Motors** and **Ford Motor** have pared down their number of car brands. **Pfizer** is breaking itself into three pieces. And **General Electric** in early April announced it will exit most of its huge financial-services businesses to refocus on its industrial past. "By shedding less profitable businesses, you can free up talent and shore up assets to use later for acquisitions around the world," says James Post, a professor at Boston University's Questrom School of Business.

Lafley, who declined to comment for this story, has spent hundreds of hours huddled with staff to decide which businesses are worth keeping. "He's very competitive," says Gil Cloyd, who was P&G's chief technology officer from 2000 to 2008. "It's just not in his DNA to work for gradual change or accept anything I'd characterize as mediocrity."

Lafley has simplified the organization, slicing P&G into four groups: baby, feminine, and family care; beauty; health and grooming; and fabric and home care. He's also tightened control over P&G's far-flung empire, recently requiring marketing chiefs for its five global regions to hew closely to strategy set at the Cincinnati headquarters and to be more disciplined about everything from pricing to shelving of products, says a manager who didn't want to be identified because he isn't authorized to speak publicly.

> **"Whether they're private label or niche products, smaller brands have a really good opportunity to dethrone the kings and queens."**
> **—*Ali Dibadj, Sanford C. Bernstein***

Lafley has made decisions that were once unthinkable. Last year he sold the Camay and Zest soap brands to **Unilever**—the first time P&G had done a deal with its global archrival. The Duracell battery business is gone. So are the Iams, Eukanuba, and Natura pet-food lines. Now he's shopping multiple beauty brands that could fetch a combined $19 billion, according to investment bankers. In addition to Wella and Clairol, others likely on the block include CoverGirl cosmetics and P&G's $4 billion fragrance unit.

None of this may be enough to reignite P&G's vaunted ability to create entirely new product categories, as it last did more than a decade ago with the introductions of Swiffer and Crest Whitestrips. Today, upstarts are proliferating and capturing supermarket share without the large amounts of capital, or long lead times, usually associated with P&G's product development process. "Whether they're private label or niche products, smaller brands have a really good opportunity to dethrone the kings and queens," says Ali Dibadj, an analyst at Sanford C. Bernstein.

Method Products, a maker of nontoxic and biodegradable cleaning supplies based in San Francisco, took only a year to redo its detergent so it could be sold in the clear plastic bottles that have become the company's hallmark. By comparison, Tide Pods, detergent-filled plastic packets that dissolve in the washer, took eight years to launch. Although tiny compared with Tide, Method has won shelf space at large retailers such as Target and Walgreens. It's growing at double-digit rates and is especially popular with green-conscious shoppers.

"P&G always got off on being big," says Faith Popcorn, a trend consultant who's worked with P&G and other large consumer companies. "But now the world's going for small and intimate, individual and one-on-one."

A smaller P&G should let Lafley concentrate more on products with the biggest payoff. "A.G. is changing the game by deciding where to play," says former Pillsbury CEO John Lilly, a P&G alum who worked with Lafley. But the company has to do a better job of convincing people that its brands, usually priced at a premium to rivals', are worth the cost. Exhibit A: the long-struggling beauty business, which generated almost a quarter of total 2014 revenue, but whose sales, adjusted for currency moves, remained little changed.

P&G isn't abandoning its two biggest beauty brands, Pantene shampoo and Olay skin care, because they lead their categories and together generated $5 billion in sales last year. Olay is "still an opportunity to be realized," Lafley told analysts in February. Although the company has tried to win younger consumers by adding the teen-focused Fresh Effects line to Olay, the brand is widely perceived to be for mature women. **L'Oréal** has had more success targeting younger and ethnic

How A.G. Lafley Filled P&G's Shopping Cart

FROM LEFT: COURTESY PROCTER & GAMBLE; BRYAN DENTON/CORBIS (2); DATA: COMPANY FILINGS, BLOOMBERG
*P&G AGREED TO BUY THE REMAINDER OF WELLA IN 2004;

customers. It's captured millennials, for instance, with its Urban Decay cosmetics line and is buying Brazilian hair-color maker **Niely Cosmeticos Group**.

Lafley has said he considers it his "duty" to refashion the company, but he also has told associates that he doesn't plan to remain CEO much longer. "While we still have work to do, we are seeing progress," says Kathy Fish, the current CTO. Still, the hardest part of the makeover will be squeezing more growth out of brands that remain. So it's questionable whether Lafley will be able to complete P&G's transformation on his watch this time around. —*Carol Hymowitz and Lauren Coleman-Lochner*

The bottom line Procter & Gamble is keeping 65 brands that account for 86 percent of the consumer-product giant's sales.

The Fox Run RV Park outside Williston, N.D.

Energy

Oil's New Boomtowns Head Toward Bust

▶ Drillers spent big to house workers in man camps. No more

▶ "Everybody's going to have to adjust" to the new reality

At the peak of the fracking boom a few years ago, Jeff Myers converted his South Texas hunting camp into rental oilfield housing. Little wonder: The industry had an almost insatiable hunger for the grunt laborers—the roughnecks—to work the fields, and employers were happy to spend whatever it took to house and feed them. Today that boomtown demand—and $100-per-barrel prices—is a bittersweet memory, and occupancy at Myers's once-packed Double C Resort has dropped to 10 percent as job cuts take hold. "There aren't going to be any winners down here," he says. "Everybody's going to have to adjust."

America's oilfield "man camps"—as the industry calls them—are turning into ghost towns as drillers cut back the free housing, food, and air travel once used to lure shale boom workers. The mini-settlements that sprang up throughout drilling regions in Texas, North Dakota, and Colorado are fading away as energy companies look to slash as much as $114 billion in spending this year, says a Cowen Group survey, and lay off tens of thousands of employees.

Roughnecks in a man camp before their shift outside Watford City, N.D.

"The money flies" when the oil field's booming, says Milton Allen, who's built and developed facilities for the oil industry for the past 15 years and operates a 12-room man camp in the Eagle Ford Shale in South Texas. "Then when the market starts to trim down, the money stops."

During the shale boom, some companies were paying as much as $40 million a year to house and feed a group of 1,000 workers, according to worker services company Target Logistics. The man camps they built ranged from dozens of RVs neatly lined up on the edge of oil fields to entire communities of mobile homes or manufactured housing thrown up in the middle of the Texas scrub country or North Dakota Great Plains.

Competition for well-trained, specialized employees grew so fierce that extravagant benefits were necessary to recruit top talent to remote drilling areas. Lodging perks included daily room cleanings; catered meals such as beef barbecue, shrimp, and lobster; and flatscreen TVs with hundreds of channels. Many workers even got free air travel to commute between job sites and home during breaks.

Halliburton President Jeff Miller recently cited housing expenses as one area ripe for cuts as the industry moves from a "boomtown mentality" ▶

back to "normalcy." "We have an entirely commuter workforce that flies to and from an area," he told investors at a Credit Suisse energy conference in February. "They live in our company-paid housing. We're feeding them 24 hours a day. The cost of all associated services skyrockets as well."

With layoffs now the rule, many workers are grateful just to keep their jobs. So more employers are asking them to cover their own rent, pay for their own clothing, and find their own transportation to drill sites.

Christopher Powell, who worked for Epic Management Resources, a subcontractor to **Swift Energy** in Tilden, Texas, saw the writing on the wall in March when Swift started rounding up leased furniture and unused computers in its offices in drill site communities. Another sign of trouble: "The food just got worse and worse," recalls Powell, who graduated from Texas A&M University in 2010 with a business degree and went straight to work in the industry. Rib-eye was no longer served at the company's safety meetings. "It eventually got as bad as chicken-fried steak," says Powell, who lost his job in March.

On top of a salary, a company's typical cost for an out-of-town worker in the Bakken Shale in the Dakotas during the boom was about $500 a day, with most of that going to accommodations, says PacWest Consulting Partners, a unit of IHS. "It was a necessity of recruiting," says Jeff Zarling, president of Williston (N.D.)-based Dawa Solutions Group, a Bakken-area marketing firm. But today, "what we're seeing is companies want to get out of the housing business."

Shares of **Civeo**, an oilfield housing supplier that operates man camps across North America and Australia, have fallen 89 percent since it began trading last May after being spun off from oil services company Oil States International. The company is expected to swing to a loss of $54.2 million this year, excluding certain items, after showing a profit of $79.7 million in 2014.

Workers in search of cheap housing near the Texas fields are flocking to the 84 recreational vehicle parks scattered around Dimmit County in South Texas, says Mario Chavez, assistant city manager of Carrizo Springs, the county seat. RVs allow roughnecks to live like migrant workers, moving from drill site to drill site as jobs require, he says. "Everybody's starting to try to be more frugal about what they do," he says.

Austin Covington is one of the lucky ones who's kept his job, clearing drilling sites at the Briscoe Ranch in South Texas. The excavation company he works for has cut back on overtime and taken away his uniform to save on dry cleaning. One of its four trailers is getting hauled away, and the workers are squeezed into the remaining three, with Covington, 20, sharing a bedroom with another worker. "Thankfully," Covington says, "he doesn't snore." —*David Wethe and Kelly Gilblom*

89%

Decline in the share price of man camp operator Civeo since the company began trading last May

The bottom line At the shale boom's height, oil companies spent as much as $40 million a year to house and feed 1,000 workers.

Snacks

Chew on This: Selling Gum Is Getting Stickier

▶ Established makers and startups are experimenting with new flavors

▶ "You can hear the wailing from the manufacturers"

Will Papa has one of the hardest jobs in the food industry: getting Americans to chew more gum. So challenged is the product–U.S. sales have fallen 15 percent, to $3.5 billion, since 2009–that **Hershey**'s research chief isn't even calling his latest product gum. Ice Breakers Cool Blasts Chews, which dissolve after about 10 chomps, are a cross between mints and gum. "You have to be on the lookout for that unmet need," he says.

Cool Blasts Chews went on sale in early April amid stiff competition. Established gum makers are rushing to produce new flavors and packaging to stay ahead of consumers' changing tastes. **Wrigley** has gotten traction with an Orbit gum pack that it introduced in 2006 designed to fit snugly into a car cup holder. The company's Dessert Delights line includes root beer float and peach cobbler flavors. **Trident** created a limited edition pumpkin-spice gum that was available last fall. To attract health-conscious consumers, startups have introduced all-natural varieties such as **Glee Gum**'s aspartame-free gum in recyclable pouches.

Last year, Americans chewed gum 1.4 times a week on average, down 30 percent from 2009, research firm NPD Group shows. Aging boomers are giving it up because their dentures might not be up to the task. Millennials didn't develop much of a taste for gum. Fewer Americans are smoking, so there's less demand for gum to hide tobacco breath. "You can hear the wailing from the manufacturers," says Marcia Mogelonsky, director of insight at Mintel Group's food division. "Gum is stuck." One bright spot is China, where gum sales almost doubled, to $3 billion, from 2009 to 2014 and are projected to grow an average of 6 percent through 2018, according to Euromonitor International. Wrigley and **Mondelēz International**, formerly **Kraft Foods Group**'s snacks business, both sell in China.

When Papa arrived at Hershey in 2012, he was handed a list of product ideas and told to find something with lasting appeal. Thirty years in research and development at Procter & Gamble taught him to search for what R&D types call unarticulated niches–things people don't know they want, such as a gum-mint hybrid. Cool Blasts Chews required a strong minty flavor, enough texture for about 10 chews, and the chemistry to dissolve on the tongue. (In tests, Papa watched to see if consumers took the chew out of their mouth and stuck it under a table. No one did.) Hershey had to create a production process for the chews at a factory in Memphis.

Who's Masticating?

Annual gum sales

DATA: EUROMONITOR

"Trying to please everyone when you go for the middle ground" is risky, says Nicholas Fereday, a food analyst at Rabobank International.

Gum used to be pretty basic: synthetic rubber, sweetener, and flavoring. In the late 1800s, William Wrigley Jr. gave away sticks of gum to help sell soap and other household products, says Jennifer Mathews, a professor at Trinity University who wrote a history of gum. Eventually, Wrigley realized the gum was more popular and introduced Juicy Fruit and Spearmint in 1893. In 1915, Wrigley mailed packs to the 1.5 million American households listed in the phone book. Four years later he erected billboards shaped like gum wrappers along a train route from Trenton, N.J., to Atlantic City.

The industry kept sales growing for the next half-century by positioning gum as fun. Then came the health claims: For years, Trident's slogan was "Four out of five dentists surveyed recommend sugarless gums for their patients who chew gum." Wrigley and **Cadbury** promoted several sugarless brands as cavity fighters and brandished the American Dental Association's seal of approval. Wrigley even got a patent for Viagra gum but let it expire in 2005. In 2011, Kraft introduced Trident Vitality, a gum packed with vitamins. It lasted two years.

"There are emotional reasons that people chew gum–in particular, fun," says John Starkey, vice president for U.S. gum and mints at Wrigley, a division of closely held **Mars**. "I think we've steered too far from the fundamental reason people chew gum."

In January, Wrigley released the first national Juicy Fruit television ads in 10 years. One features two men in a locker room making rude noises with their armpits. The sophomoric humor is aimed squarely at teens and young adults, Wrigley's target demographic. The ad has been viewed more than 7 million times on YouTube, and U.S. sales have more than doubled in the last few months. But commenters smelled desperation. Some asked why an iconic brand would want to associate itself with passing gas. —*Craig Giammona*

The bottom line Health concerns and new habits have turned Americans off gum: U.S. sales have dropped 15 percent since 2009.

CLOCKWISE FROM TOP LEFT: GETTY IMAGES; HULTON ARCHIVE/GETTY IMAGES; JASON ALDEN/BLOOMBERG; SHUTTERSTOCK; GETTY IMAGES

Edited by James E. Ellis and Dimitra Kessenides
Bloomberg.com

Briefs

By Kyle Stock

Objecting to Google

The European Union accused *Google* of violating antitrust laws by using its search engine to unfairly steer consumers to its own shopping platform. The EU also opened an antitrust probe into the company's Android operating system for mobile phones. The actions, which came after an almost five-year investigation, could severely hamstring the search engine giant in Europe. In an online statement, Google said it disagrees with the charges and looks forward to making its case. *Walgreens Boots Alliance* said it would freeze pay for senior U.S. executives as part of a $1.5 billion cost-cutting program. The drugstore operator is also closing 200 of its 8,232 stores in response to three consecutive years of declining foot traffic. *Audi*, *BMW*, and *Mercedes-Benz* collectively reported a 9 percent jump in luxury-car sales in the first three months of the year, as the burgeoning economy and a rash of new models lured customers worldwide. BMW retained bragging rights by selling 451,600 vehicles, to Audi's 438,200; Daimler's Mercedes brand delivered 429,600 cars and SUVs. *Avon Products* may consider selling its North American business, according to people familiar with the matter. The company postponed an investor presentation scheduled for May 13 to explore strategic options. In the past five years, Avon sales have dropped 13 percent, to $8.9 billion, and it's swung from a $626 million profit in 2009 to a $389 million loss last year. Chinese drone maker *DJI* is seeking to raise funds at a valuation approaching $10 billion, which would make it one of the world's most prized start-ups. The maker of easy-to-operate consumer drones expects $1 billion in sales this year.

$70k

Minimum salary that credit card processor **Gravity Payments** will pay its 120 employees. Founder Dan Price said he will raise salaries at the Seattle-based company over the next three years.

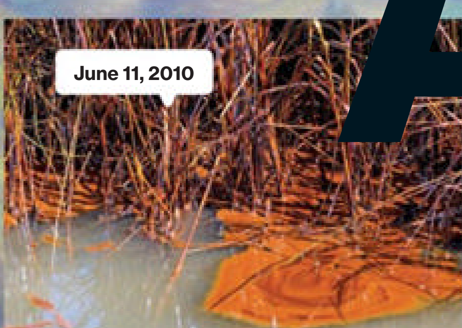
JetBlue is looking for a room. The airline is negotiating with New York officials to turn the iconic Trans World Airlines terminal at John F. Kennedy International Airport into a hotel.

CEO Wisdom

"Since when was one year considered a long-term investment?"

Laurence Fink, CEO of BlackRock, calling on executives to stop giving in to demands by activist shareholders

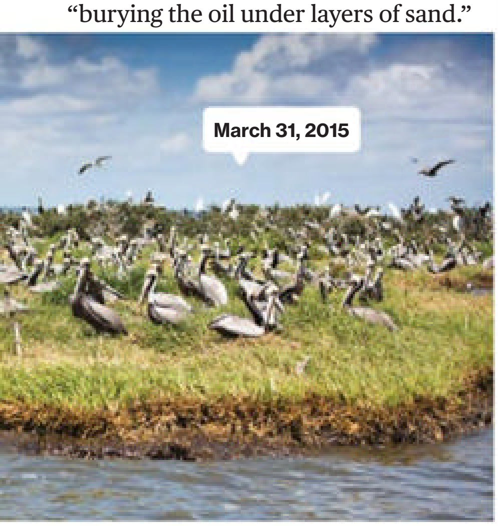
Not So Bad After All



▶ Five years after the Deepwater Horizon disaster, recovery is progressing better than expected

▶ “There won’t be justice for the Gulf until the case against BP is resolved”

In early March a 30,000-pound mat of oily gunk washed up on East Grand Terre, a barrier island in the mouth of Louisiana's Barataria Bay. It was an ugly reminder of the blowout at **BP**'s Macondo well, a disaster that spewed millions of barrels of crude into the Gulf of Mexico starting on April 20, 2010. As BP crews collected the muck, the company issued a five-year report, *Environmental Recovery and Restoration*, stressing that the spill didn't do lasting damage to the ecosystem. The 40-page report described the deleterious effects as "limited in space and time, mostly in the area very close to the wellhead." BP's U.S. spokesman, Geoff Morrell, told reporters that the state exacerbated contamination on East Grand Terre with a 2010 beach-replenishment initiative that wound up "burying the oil under layers of sand."



Louisiana officials saw it otherwise. "Oh, yeah, this is absolutely our fault," Kyle Graham, executive director of the state Coastal Protection and Restoration Authority, responded sarcastically during a March 19 interview with WWLTV in New Orleans. "And the dead baby dolphin y'all saw out there was the dolphin's fault." Graham went on to give voice to the pessimism of politicians and environmentalists who found BP's report incredible: "They actually believe that the Gulf, that the actions they've done in response, have healed the Gulf, and that all of the decades' worth of knowledge about the effects of oil on these natural environments—the likelihood that these effects will last for generations—isn't true."

A more dispassionate account of the spill's legacy would emphasize several contrasting but not contradictory realities. Independent investigations and court rulings have blamed the intertwined negligence of BP and its contractors, **Transocean** and **Halliburton**, for the debacle, which killed 11 workers on the Deepwater Horizon rig. A federal judge found that the spill released 3.19 million barrels of crude. The corporate actors—chiefly BP, the majority owner of Macondo—deserved condemnation and got it. Yet as bad as the environmental and economic damage was, the recovery has been remarkable, in large part because of luck.

Beginning more than a century ago with John D. Rockefeller's monopolistic ambitions at Standard Oil, the petroleum industry has earned popular distrust. In the 2000s, BP launched a disingenuous "Beyond Petroleum" greenwashing campaign, long since abandoned. The company's singularly poor safety record made things worse. A 2005 explosion at its Texas City Refinery killed 15 people and injured 170. BP pleaded guilty to a felony violation of federal environmental law and paid a $50 million fine. The next year, a BP pipeline rupture in Prudhoe Bay caused one of the largest spills in Alaska's North Slope. The 87 days in 2010 when Macondo released its murky contents—much of it under the watchful eye of a televised "spill cam"—intensified disillusionment with the British-based company. Oil besmirched 1,100 of the 16,000 miles of Gulf coastline. Birds, fish, shrimp, and oysters died in droves. Maritime and tourist businesses shut down, some for months, some forever.

Which brings us back to the East Grand Terre oil mat. The 30-meter-wide mass was something of an outlier. BP's shoreline cleanup, supervised by the U.S. Coast Guard, concluded a year ago. Since then, cleanups have resulted in the collection of 6,000 pounds of weathered oil residue mixed with sand. All told, BP has spent more than $28 billion on cleanup and damage claims. By mid-2011, according to government surveys, only a tiny fraction of the sullied coast, some 13 miles, suffered from "heavy oiling," meaning areas with 50 percent contamination or worse. By last year, fewer than 4 miles were so categorized.

Since the spill was capped, less than 2 percent of almost 18,000 water samples and a similar proportion of more than 8,000 sediment samples have exceeded U.S. Environmental Protection Agency toxicity benchmarks. Many of the bad readings were taken in the vicinity of the Macondo wellhead, 40 miles offshore and 5,000 feet below the ocean surface, which helps explain why the harm to the coast wasn't worse.

Wildlife populations have bounced back. Dolphins, an exception, have perished in abnormally high numbers in recent years, but scientists date the beginning of the elevated mortality trend to February 2010, two months before the oil spill. Many commercial fisheries reopened by 2011. Oyster stocks have dwindled, but studies have attributed the problem to Louisiana's diversion of fresh water into the Gulf after the spill and to Mississippi River flooding in 2011; both reduced salinity, a death sentence for oysters.

3.19m

Barrels of oil BP is responsible for releasing into the Gulf, according to a federal judge

Every year, the equivalent of 560,000 to 1.4 million barrels of oil—perhaps a quarter of the amount that BP spilled—seeps naturally from the floor of the Gulf, estimates the National Research Council. Hydrocarbon-gobbling bacteria that thrive in the region thus were positioned to biodegrade oil from the spill. Once BP's oil reached the surface, warm-water temperatures and ample sunlight accelerated evaporation and photooxidation. The oil from Macondo happened to be a light crude, which degrades and evaporates more quickly than heavier oil, like what escaped during the 1989 *Exxon Valdez* accident in Alaska. No one can say for sure how much BP oil residue remains in deep water—there are surely more undiscovered tar balls and oil mats than the one that washed up on East Grand Terre—but over time, it will be increasingly difficult to distinguish BP's contribution from Mother Nature's.

BP still has bills to pay. In a pending civil trial under the Clean Water Act, the federal government is seeking an additional $13.7 billion, most of which, by law, would have to be spent on regional restoration projects. A separate ▶

JULIE DERMANSKY; GETTY IMAGES (6); YOUTUBE

2016 Election Code Words

The scripted announcements of the four candidates who have jumped into the race to succeed President Obama hint at the sensibility each will bring to the campaign.
—*Cynthia Hoffman and Mark Glassman*

Key
- Announcement
- Talking about parents
- "America"
- "God"
- "I"
- "You"
- "Imagine"
- "Everyday"
- "Century"

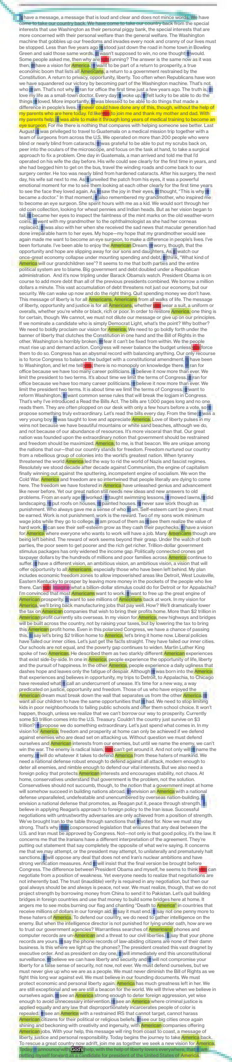
March 23
Ted Cruz
2,343
words

Number of times Cruz used "imagine":
38

"I believe in the power of millions of courageous conservatives rising up to reignite the promise of America, and that is why today I am announcing that I'm running for president of the United States."

April 7
Rand Paul
2,699
words

"I have a message, a message that is loud and clear and does not mince words."



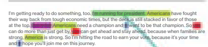
Number of times Paul used "I":
88

Number of times he said "you":
7

"Today I announce with God's help, with the help of liberty lovers everywhere, that I am putting myself forward as a candidate for president of the United States of America."

April 12
Hillary Clinton
92
words

When Clinton announced in 2007, her word count was
316

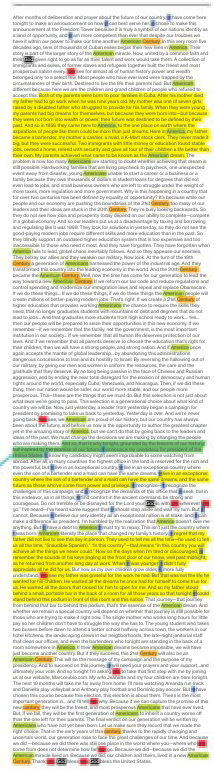


Number of times Clinton used "strong," "ahead," and "champion" each:
2

and "everyday":
1

"I'm running for president."

April 13
Marco Rubio
1,998
words



Number of times Rubio used "century":

13

"19th century"	1
"20th century"	2
"21st century"	3
"American Century"	5
"This century" or "this new century"	2

"And so that is why tonight, grounded by the lessons of our history, but inspired by the promise of our future, I announce my candidacy for president of the United States."

DATA: FEDERAL NEWS SERVICE, THE AMERICAN PRESIDENCY PROJECT

◀ federal administrative process, called a Natural Resource Damage Assessment, will generate another multibillion-dollar restoration tab for the company. Since 2010, BP has sold about $38 billion in assets, and the company's total liability could exceed the $43 billion it has set aside.

Early on, BP responded to pressure from the Obama administration and plaintiffs' lawyers by trying to conciliate. It created a $20 billion fund for spill costs—not enough, as it turned out, but a substantial gesture. Under the stewardship of compensation guru Kenneth Feinberg, who was appointed by President Obama, the company distributed $6.5 billion to more than 220,000 private claimants in only 16 months, through March 2012.

In the Gulf, an aggressive plaintiffs' bar accused Feinberg of stinginess, while overly ambitious Louisiana officials undermined a federal-state settlement proposal BP almost finalized with the Obama administration. The fires of litigation reignited in 2013 and have burned intensely since, delaying resolution in the name of a potentially bigger aggregate payout. Some BP critics sound eager for endless courtroom warfare. "There won't be justice for the Gulf until the case against BP is resolved and the billions in fines can begin flowing in," says Steve Cochran, the Environmental Defense Fund's Mississippi River Delta Restoration director. Actually, billions have already flowed, and recovery is well under way. —*Paul M. Barrett*

The bottom line BP is still paying for the 2010 disaster in the Gulf, but the environmental damage has been far less than many feared.

JON-MICHAEL SULLIVAN/THE AUGUSTA CHRONICLE/ZUMA

Labor

Nikki Haley, Proud Union Buster

▶ The South Carolina governor is stepping in on Boeing's behalf

▶ "This right-to-work thing and jobs and Boeing, it defines her"

On April 22, 3,000 **Boeing** employees in South Carolina were scheduled to vote on whether to join the International Association of Machinists and Aerospace Workers, the union that represents their co-workers in Washington

state. The vote was a big deal for the IAM; it fought hard against Boeing's decision to build its 787 Dreamliner at the nonunion South Carolina plant after repeated strikes in Washington. But on April 10, union officials told a reporter for the Charleston *Post and Courier* they were considering withdrawing their election petition. It was a victory for Boeing and for its biggest supporter: South Carolina Governor Nikki Haley.

Many Republican governors, including Wisconsin's Scott Walker, have staked out anti-union positions, but Haley has been Boeing's strongest weapon in its fight with IAM. She's slammed the union on Facebook and Twitter using hashtags like #BoeingStrong and #VoteNo. She appeared in a Boeing radio ad encouraging workers to reject the unionization bid. In January she devoted part of her State of the State address to the issue. "We have a reputation internationally for being a state that doesn't want unions, because we don't need unions," she said. "I have every confidence that the Boeing workers in Charleston will see this play for exactly what it is and reject this union power grab." IAM spokesman Frank Larkin says, "Given the effort by Boeing and surrogates to spread misinformation about the IAM, misinformation about collective bargaining, as well as the unprecedented political interference, we're concerned that a free and fair election is impossible at this time."

Last year in Tennessee, Republican Governor Bill Haslam and Senator Bob Corker warned employees against unionizing at **Volkswagen**. Other elected officials threatened to cut state subsidies if workers unionized, and the United Auto Workers lost. "You don't need the National Guard anymore to beat up picketers," says Nelson Lichtenstein, a labor historian at the University of California at Santa Barbara. "You can use the power of the purse to persuade workers that it's not in their best interest to vote union."

Haley's feud with the IAM predates her 2011 inauguration. Her predecessor, Mark Sanford, lured Boeing production to South Carolina with a $170 million loan package and a state law that limits union contracts. "We can't afford to have a work stoppage every three years," Jim Albaugh, then the chief executive officer of Boeing Commercial Airplanes, told the *Seattle Times*.

As governor-elect, Haley announced she was appointing a veteran anti-union lawyer as head of South Carolina's Department of Labor, Licensing, and Regulation to help her "fight the unions," including at the soon-to-open Boeing plant. Her comments prompted a lawsuit by the IAM, which argued Haley's union bashing violated federal law protecting union organizing. A federal judge dismissed the suit. In her first year as governor, the National Labor Relations Board's chief prosecutor filed a complaint against Boeing alleging the company was shifting jobs to South Carolina to punish unionized employees for striking in Washington. Haley countered that the Obama administration was retaliating against South Carolina for curbing union organizing with its law, known as right-to-work. "This right-to-work thing and jobs and Boeing, it defines her," says GOP consultant Walter Whetsell, who's worked on Haley's campaigns.

"They should pack their bags, head back to Seattle, and stop trying to steal the success of the workers at Boeing." —*Haley press secretary Chaney Adams*

For Haley, a public grudge match with the machinists' union is all upside. South Carolina is staunchly red and has the nation's second-lowest unionization rate. She won reelection last year by more than 14 percentage points, and, at 43, is widely seen as a prospect for national office. "I wear heels—it's not a fashion statement," she told the crowd at the South Carolina Manufacturing Conference and Expo on April 14. "It's because we've kicked the unions out every day of the week since I've been here."

Boeing spokesman Rob Gross says Haley "has always been a strong supporter." Haley declined to be interviewed. "As Governor Haley frequently points out, this is the very same union that first said our workers couldn't build airplanes and then sued to shut down our plant and destroy thousands of South Carolina jobs," says her press secretary, Chaney Adams. "They should pack their bags, head back to Seattle, and stop trying to steal the success of the workers at Boeing South Carolina."

IAM spokesman Larkin says that's not going to happen. Even if the April election is canceled, he says, the IAM plans to continue its campaign to unionize Boeing's plant and push for a future vote. That means more conflict with Haley. "At this point, it's hard to tell the difference between Boeing and Nikki Haley," Larkin says. "The implication that people are left with is that if you support collective bargaining rights in South Carolina, you are somehow opposing the official positions of South Carolina." —*Josh Eidelson*

The bottom line South Carolina's governor has made defeating a unionization drive at a Boeing plant into a personal cause.

Campaign Finance

Nothing's Simple When It Comes to Super PACs

- Ready for Hillary needs to find a legal way to give Clinton its data
- "So much money was invested to custom-build a list"

Ready for Hillary is going out of business. The unsold T-shirts are being sent to homeless shelters. Emily's List, a nonprofit that supports Democratic candidates, will inherit the Hillary Bus, which logged 45,000 miles ferrying organizers to more than 1,300 events. ▶

◀ The last remaining question is how to dispose of the super PAC's most valuable asset: its 4 million-member list of people interested in helping Hillary Clinton win the White House.

Under Federal Election Commission rules, the group is prohibited from coordinating with the new Clinton campaign and can't simply hand over its data for free. (It also had to change its name to Ready PAC once Clinton announced her candidacy, dropping the "Hillary" to avoid the appearance of a formal affiliation.) Candidates in the 2016 field who currently hold office, such as Senator Rand Paul and Senator Marco Rubio, have avoided this problem by collecting names through their existing political action committees, which unlike super PACs are bound by strict rules on accepting donations but can freely share information with campaigns. Former Florida Governor Jeb Bush started his own political action committee earlier this year, after he'd declared his interest in running for president.

Ready for Hillary was set up in early 2013 by Adam Parkhomenko and Allida Black to lay the groundwork for a Clinton candidacy. At the time, Clinton said she was taking a break from politics to focus on writing her memoir. Without an active candidate, her backers had two choices: start a super PAC, which didn't require Clinton's participation, or wait until she was ready to declare herself, and potentially let rivals get ahead of her. "When Hillary Clinton was at the State Department she did not have a political operation, she couldn't be in touch with voters and communicate with an e-mail list, so that was just put all on hold," says Tracy Sefl, a Democratic consultant who's been a senior adviser to Ready PAC.

The group raised almost $15 million, 98 percent of it in donations of $100 or less. The money was spent collecting names, e-mail addresses, and phone numbers from potential volunteers and donors—the raw data Obama made the centerpiece of modern campaigning. "I don't know of any prior occasion in which so much money was invested to custom-build a list for a specific individual candidate," says Paul S. Ryan, senior counsel at the Campaign Legal Center, a watchdog group in Washington. "It's fair to say it's unprecedented."

Ready PAC can legally sell, rent, or swap its database to Clinton's campaign. "They were always going to have to do this," says Bob Biersack, a former senior Federal Elections Commission staffer. "It wasn't something they didn't think through." The trouble is figuring out how much the Ready database is worth. FEC rules are "real generic," he says. "The FEC always struggles with how you value lists like that."

Ready PAC says it's working on a deal. "It's where the lawyers come in," Sefl says. Ryan says he's watching Clinton's team closely. "If we think that, however the exchange is accomplished, that it amounts to Ready for Hillary giving something of value that the Clinton campaign isn't paying fair-market value for, then we'll probably file a complaint," says Ryan, whose group has filed complaints against Bush and other prospective candidates concerning their super PAC fundraising.

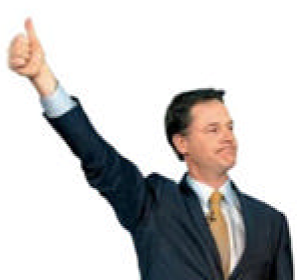
For now, Ready PAC is pushing as many people as it can to sign up directly with the Clinton campaign. "Hey, friend," reads a blast e-mail sent out on April 14. "Click here to 'like' Hillary Clinton on Facebook." There's a good reason the group is asking people to give their details directly to the campaign: When a final deal is made, every supporter Ready PAC can persuade to sign up with Hillary on his own is one less supporter Clinton's team would have to pay for. —*Phil Mattingly*

The bottom line A super PAC spent two years collecting voter data for Hillary Clinton, but now her campaign may have to pay for it.

Quoted

"The Liberal Democrats will add a heart to a Conservative government and a brain to a Labour one."

Liberal Democrat leader **Nick Clegg** on April 15, offering British voters his vision for a coalition government



Criminal Justice

It's Very Hard to Punish Cops, Even in Court

▶ Legal standards to protect police set a high bar for convictions

▶ "We give them the benefit of the doubt, in other words"

On April 7, prosecutors in North Charleston, S.C., filed murder charges against a white police officer who fatally shot an unarmed black man in the back after he fled during a traffic stop. The officer, Michael Slager, has been dismissed from his job and is being held without bond at the Charleston County Detention Center. Politicians in the city, which is 47 percent black, have said they believe Slager must be held accountable. "When you're wrong, you're wrong," North Charleston Mayor Keith Summey said at a press conference. "Don't care if you're behind the shield or just a citizen on the street."

Protests erupted across the U.S. last year after juries in St. Louis and New York decided not to indict white policemen involved in the deaths of unarmed black men. In their wake, prosecutors around the country have moved to put law enforcement officers on trial rather than let cases be handled internally by police and sheriff's departments. Prosecutors in Tulsa filed manslaughter charges on April 13 against a 73-year-old reserve deputy sheriff who apparently mistook his gun for a Taser and shot and killed an unarmed man.

Yet police face a different standard than civilians. According to the 1989 Supreme Court case *Graham v. Connor*, law enforcement officers can justify using deadly force when a suspect poses "an immediate threat to the safety of the officer or others." The FBI doesn't track officer shootings

CLEGG: ROB STOTHARD/GETTY IMAGES. IRELAND: PHOTOGRAPH BY MELISSA GOLDEN FOR BLOOMBERG BUSINESSWEEK

nationwide. According to an analysis by the *Washington Post* and Bowling Green State University, 55 officers have been criminally charged in shooting deaths in the past decade. Of those, only 11 have been convicted. "We need cops, and in general we tend to respect what they do every day, so if they're doing their job and there's a bad outcome, then we want to look for the reason why," says Eugene O'Donnell, a former New York Police Department officer who's now a professor at the John Jay College of Criminal Justice. "We give them the benefit of the doubt, in other words."

In December a grand jury in Orangeburg, S.C., returned murder charges against Richard Combs, the white police chief of the 300-person hamlet of Eutawville, who shot and killed an unarmed former corrections officer named Bernard Bailey in 2011. At the time, some said the indictment proved South Carolina was especially sensitive to the rights of black Americans. "The brand of justice, ironically, in this state has proved at this moment across America to be even higher than that that we see in New York City," Bailey family attorney Carl Grant said when the charges were announced.

Combs's trial began on Jan. 7 and ended a week later with a hung jury. Combs had been trying to arrest Bailey on an obstruction of justice charge after Bailey tried to stop Combs from writing his daughter a traffic ticket for a broken taillight. Combs said he'd been standing in the open door of Bailey's truck trying to handcuff him when Bailey put the vehicle in reverse. "I've never been that scared in my life," Combs testified.

"The people who are charged with enforcing the law have an even higher duty to obey the law," says Paul Butler, a former federal prosecutor who now lectures on civil rights and discrimination at Georgetown University Law Center. "Unfortunately, police officers know that it's very unlikely that they'll be punished even when they knowingly use excessive force against citizens. If they thought there was a realistic chance that they would be investigated and prosecuted, that would be an effective deterrent." —*Matt Stroud*

The bottom line After Ferguson, prosecutors are moving to charge cops who shoot unarmed civilians, but legal standards favor police.

Hidden Hand

Leslie Ireland

Assistant Secretary for Intelligence and Analysis, U.S. Department of the Treasury

Over the past decade, the U.S. has used sanctions to punish Iran, North Korea, and Russia and to choke off the flow of money to drug cartels and terrorist groups like Islamic State. Treasury, through its decade-old Office of Intelligence and Analysis, has taken a leading role in improving the way the government tracks funding networks that pose national security threats. ▶ Since 2010 the office has been run by Leslie Ireland, a former CIA officer who worked on Iran and weapons of mass destruction. She became President Obama's daily intelligence briefer after he was elected in 2008. "What Leslie's office is particularly good at is mapping out the financial networks," says CIA deputy director David Cohen, who worked closely with Ireland in his previous job as Treasury's undersecretary for terrorism and financial intelligence. "They will take these little pieces of information and see how they relate to one another and sort of paint a picture of the network." ▶ Ireland, the daughter of a mathematician who worked on the Apollo lunar lander, was encouraged to become a spy by her Georgetown roommate's father, a CIA officer who'd handled operations in Iran. "He sits back and looks at me and says, 'I think you'd enjoy working there,'" she says. "He just spoke with such a passion and conviction that it really appealed to me." —*Andrew Mayeda*

Curriculum vitae

2010-present
Assistant secretary, Treasury

1985-2010
Analyst/manager, CIA

1985
Administrative assistant, Science Applications International

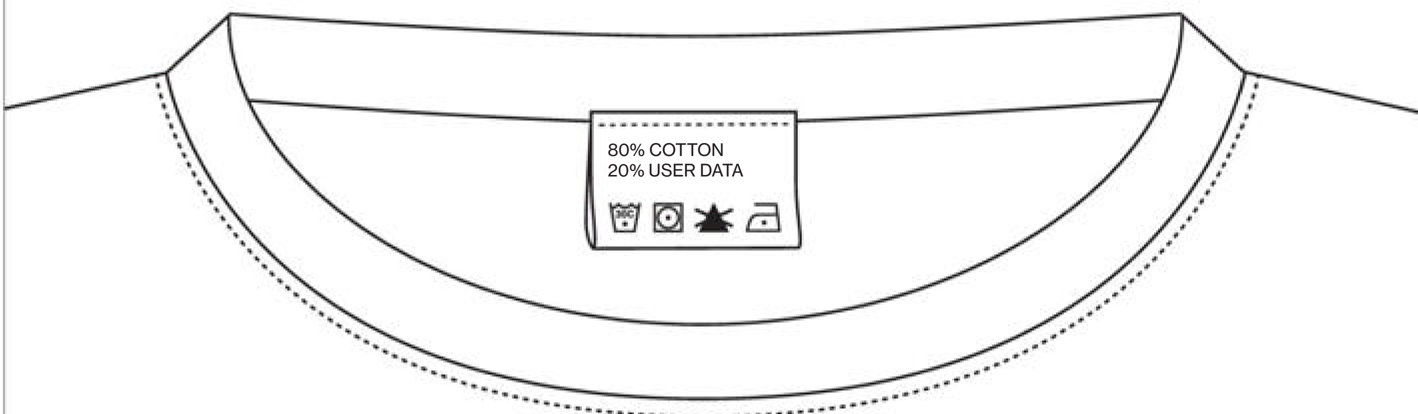
1982-84
Salesperson, Liberty of London

Education
M.A., Russian studies, Georgetown University, 1983

B.A., government, Franklin & Marshall College, 1981

Awards
National Intelligence Distinguished Service Medal, 2009

CIA Intelligence Commendation Medal, 1991



Teespring uses social media to sell more than 7 million shirts a year

"I'll do anything to make money. That's the kind of person Teespring attracts"

It's hard to say exactly when the British World War II slogan "Keep calm and carry on" began its ascent in the pop-culture lexicon, but over the past three years startup **Teespring** has turned variations on that theme into fashion statements: "Keep calm and ask a librarian," "Keep calm and smoke on," "I can't keep calm I'm a wrestling mom," and hundreds more.

However quirky your passion, the San Francisco T-shirt maker has a design for you. Or, if it doesn't, it will help you make the shirt you want, sell it, and take a cut. "Keep calm and let the radiation therapist take care of it" has helped former restaurant manager Benny Hsu earn more than $120,000 in the past year, he says. Kimberly Springer, a former hospital secretary, has made about $238,000 in the past year targeting Christian women with shirts that read "She is strong: Proverbs 31" and "This girl still dates her husband." "Studying the niche is very important," she says. "What are they most proud of? What are they not receiving recognition for?"

Teespring, one of the top T-shirt sellers in the U.S., printed more than 7 million shirts last year, about 1 of every 75 sold in the country. Hundreds of people like Hsu and Springer made more than $100,000 in 2014 selling tees through the company's site; 20 collected more than $1 million, according to Chief Executive Officer Walker Williams.

Williams's more than 300 full-time employees serve as the back-office staff for independent designers like Hsu and Springer, running their online sales, processing payments, making and shipping the clothes, and handling customer service. Teespring charges designers about $9 per shirt, depending on the cotton quality and intricacy of the design. The designers set the retail price and pocket the difference.

Heavy use of **Facebook** advertising has helped Teespring and the designers who use it ensure that the right shirts get in front of the right eyeballs—that T-shirts for cat lovers don't get pushed to people with iguanas. The company says about 60 percent of its sales come through ads on social media, with roughly 20 percent of shirt buyers sharing their purchases on Facebook. "It's a very emotional purchase, because usually it's around their passion and things they love," Williams says. "We're giving everybody access to the same quality as Nike."

Teespring's success has attracted T-shirt designers including YouTube

CLOCKWISE FROM LEFT: T-SHIRT ILLUSTRATION BY 731; PAYDAY ILLUSTRATION BY SAM ISLAND; PHOTOGRAPH BY 731

stars and brick-and-mortar companies. Glyn Williams, a former foreign exchange trader who has sold more than $1 million worth of shirts since October, says the data Facebook has on its users is startling. With a few clicks from his house in the U.K., ads for his design reading "Keep your hands off my gun, Obama" reach male Facebook users 25 and older in certain parts of the U.S. who've expressed an affinity for the National Rifle Association and visited gun-rights advocacy websites. He tried pushing opposing shirts to people who visit sites supporting stricter gun laws, but they didn't sell. More successful have been shirts marketed to French expatriates, people who worry "the government is out to get them," and owners of various dog breeds. (Pit bulls and German shepherds outperform Chihuahuas and Labradors.) Williams spends three hours a day updating a spreadsheet that tracks revenue from each of his more than 100 designs vs. the money he's spent advertising each one. "I'll do anything to make money," he says. "That's the kind of person Teespring attracts."

Walker Williams co-founded Teespring with Evan Stites-Clayton, the chief technology officer, in Providence in 2011 while both were seniors at Brown University. The two friends wanted to print shirts to commemorate the closing of a local dive bar and were floored by the upfront costs and need to guess how many of each size they ought to order. Williams built a website to take orders and gauge demand, posted a link to it on Facebook, and woke up the next morning to hundreds of orders, along with a handful of e-mails requesting that he create similar sites for other people's T-shirt ideas. "I immediately knew there was something there," he says.

After college, Williams solicited advice from Sam Altman, a former neighbor who's president of **Y Combinator**. Altman invited him to join the Silicon Valley startup accelerator's 2013 class. While there, Williams turned

"Studying the niche is very important. What are they most proud of? What are they not receiving recognition for?" *—T-shirt designer Kimberly Springer*

down an $8 million offer for Teespring. The company's annual revenue now tops $100 million, says a person familiar with the financials who wasn't authorized to discuss it.

So far, Teespring has raised about $55 million in venture funding. It's spending $22 million to build a 105,000-square-foot printing factory in Hebron, Ky., so it will no longer have to contract as much work out to other shops. Williams says Teespring will continue to print shirts only when an order has been placed by a consumer online, so the company and its designers don't get stuck with unsold inventory. "This idea of on-demand e-commerce, where things are made customized for people when they want them, is powerful," says Altman of Y Combinator, which owns about 5 percent of Teespring.

Online apparel companies can grow quickly if they have a unique idea, but often "hit a wall" when competitors enter and customers drift to cheaper or cooler options, says Sucharita Mulpuru-Kodali, who studies e-commerce for market analyst Forrester Research. Teespring took business from custom shirt website **CafePress**. Now custom shirtmaker **Viralstyle**, founded by a former Teespring designer, is trying to talk designers into selling shirts through its site instead. Teespring's expenses are rising at the same time Facebook ad rates are ticking up, and Williams has to deal with a steady stream of legal complaints about shirts that use copyrighted images from movies or sports teams or ones that mimic existing top sellers. He says staffers review all designs to avoid liability.

On the factory floor on March 31, Williams walks past designs that range from the familial ("Cat dad") to the crude ("Put your lipstick on my dipstick"). Dressed in a baby-blue tee bearing the company logo, he says he's focusing on getting the plant, which is running at one-third capacity, fully operational by yearend. The next step will be to venture beyond shirts into hats, stickers, posters, and smartphone cases, he says. "If we can achieve this, where everybody has access to world-class production, customer service, and logistics, we can change the way brands are launched." *—Adam Satariano*

The bottom line Three-year-old Teespring sold 7 million shirts in 2014, largely on the strength of social media microtargeting.

Cybercrime

Hackers Target Online Payday Lenders

▶ The sites have the same kinds of financial data as banks

▶ "Getting the money…doesn't necessarily mean they're legitimate"

Several years ago, Joe Lagennusa had a tough time making ends meet, so the Florida sales manager turned to online payday lenders. "I wish I never would have done it," he says. "I so, so learned my lesson." He's not talking about the sky-high rates. Two of his and his wife's bank accounts were hacked in November, and the thieves emptied them, making off with $1,100. The trail led back—through a person on a hacking forum who posted personal financial information from Lagennusa and thousands of others—to those payday loans.

After IntelCrawler, a research division of identity theft protection service **InfoArmor**, discovered the hacker's posting, *Bloomberg Businessweek* contacted Lagennusa and dozens of others named in the posted files. Those people confirmed, based on the data provided, that the files came from their payday loan applications. IntelCrawler began corresponding on the forum with the thief, who said he had access to data from 105 million other people. ▶

◀ Payday lenders dole out $16 billion a year online, estimates the investment bank Stephens. Most of the companies store applicant data on their servers, including Social Security and driver's license numbers, addresses, and employment history. PayPal and your bank do the same, but their electronic defenses tend to be far sturdier than those of payday lenders' sites, says Andrew Komarov, IntelCrawler's president and chief intelligence officer. So the payday sites—and those of affiliated marketers, debt collectors, and credit-scoring companies, which often share data—have become tempting targets for crooks looking to swipe bank accounts or apply for credit cards under other people's names. "It seems to be a new wave of fraud," Komarov says.

The extent to which online payday lenders and related companies pass data back and forth makes it easier to steal, Komarov says. Traditional payday lenders such as **First Cash Financial Services** say they may share any data they collect. **USAWebCash.com** and **Check Into Cash** say in their user agreements that they share data with other lenders and independent "lead generators," hired guns who cold-call consumers to solicit interest in loans. **123CashDepot**, which ranks high in searches for payday loans, isn't a lender so much as a clearinghouse that collects and stockpiles applications so it can sell lenders the data. The companies didn't respond to requests for comment.

Lisa McGreevy, chief executive officer of the Online Lenders Alliance, which represents more than 100 payday loan companies, says that the industry is working to find and expose data thieves and that her organization employs someone to search for stolen loan data. It's often difficult to tell where identifying information originates, she says, particularly since not all sites that look like payday lenders are legitimate: "The challenge is that people go on lots of different sites. Some of those sites are fraudulent sites that are put up there exactly for this purpose: capturing this data."

To keep consumers from realizing their data was stolen, some bogus sites will go so far as to pay out loans they've promised while selling borrowers' data to identity thieves. In September the Federal Trade Commission sued two men for allegedly charging $46 million in fake fees to people whose data they'd stolen after depositing $28 million worth of loans into the people's bank accounts. "Just because you're getting the money when you're applying online doesn't necessarily mean they're legitimate," says Paul Stephens, director of policy and advocacy with Privacy Rights Clearinghouse, a nonprofit that educates consumers about financial scams.

The breach discovered by IntelCrawler exposes a wider threat to the financial system, says Tom Feltner, director of financial services for the advocacy group Consumer Federation of America. "It's clear we need meaningful reforms," he says, including bans on lead generators and restrictions on how much data payday lenders can share. The FTC wouldn't discuss possible policy changes. For now, Stephens of Privacy Rights Clearinghouse suggests setting up fraud alerts that require card companies to call you before opening an account in your name. That won't stop bank account break-ins, he acknowledges.

A more direct response might help, says IntelCrawler's Komarov. His team—with help from U.K. security firm **KCS Group**—has identified a suspect in the breach that victimized Lagennusa and is working with law enforcement. More broadly, though, "nobody is thinking about the security of the data," he says. "Nobody knows who may really steal your personal information when you are looking for a loan." —*Jordan Robertson*

The bottom line The insecure online payday loan ecosystem appears to have exposed the financial data of millions.

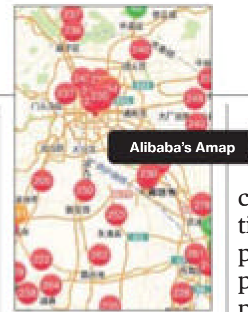
Apps

Maps That Tell You When It's Safe to Breathe

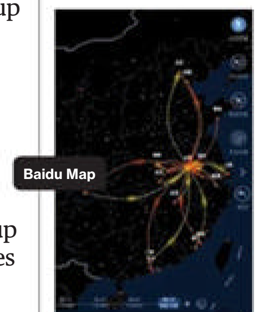
▶ **China's Internet leaders are adding features to sell mobile ads**

▶ **"Motion means location, and location depends on mapping"**

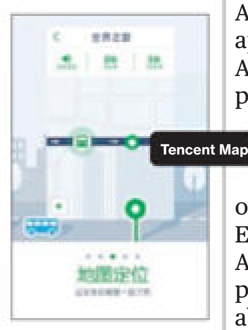
Mapmakers in ancient China were renowned for innovation in accuracy and scale. As the nation's Big Three Internet companies compete to attract users to their mapping software, their focus remains much the same, with a few high-tech twists. Online marketplace **Alibaba**, search engine **Baidu**, and messaging-app maker **Tencent** are pouring money into free mapping apps to draw larger mobile audiences. The location data that comes with the new users is coveted by advertisers, who can push products to people in specific places. **Google** Maps' share of the market has slipped into the single digits since the company stopped providing search services in China five years ago, complaining of government censorship.



The app monitors air pollution by neighborhood



A feature shows the urban holiday diaspora



It's able to track public buses in real time

The three Chinese companies offer mapping features that Google doesn't. Alibaba's mobile apps, Amap and Anav, show local pollution readings culled from China's Institute of Public & Environmental Affairs and can plot routes inside about 2,000 commercial buildings. Baidu Map is also experimenting with indoor routes by mapping shopping malls; it displays real-time traffic patterns and public-transit alerts, too. Tencent Map also provides current traffic data, plus location tracking that sends users coupons for businesses along their route. All three are racing to chart the rest of the country.

About 33 percent of Chinese mobile customers have Alibaba's mapping apps installed, while Baidu places second, with 27 percent, according to researcher Analysys International, which didn't rank Tencent. At stake in the three-way tug-of-war is 3.5 billion yuan ($564 million) a year in location-based smartphone advertising. "The mobile Internet means motion," says Chen Yonghai, vice president for mobile products at Alibaba subsidiary AutoNavi. "Motion means location, and location depends on mapping."

Alibaba took its narrow market lead last year after acquiring Beijing-based

map service AutoNavi in a deal that valued the company at $1.5 billion. During February's Lunar New Year celebrations, Alibaba gave out $1.6 million in gas coupons to new users of AutoNavi's two main apps, Amap and Anav, and says daily map users jumped 30 percent that month. Combined, more than 300 million people regularly use the apps; Alibaba says they cover 61 cities and 3.3 million miles of road.

Baidu spokeswoman Whitney Yan says her company's app also has 300 million users and covers 95 percent of China's highways, more than rivals. The app tracks delays on 70,000 bus lines encompassing 1.8 million bus stops. Baidu has invested $10 million in Finnish company **IndoorAtlas** to use its interior mapping technology, which tracks a person's movement based on changes in magnetic fields. In January, Yu Yongfu, president of Alibaba's map business, gave a public presentation of its latest technology in Beijing in which he called Baidu Map "a half-bodied man" because of its reliance on outside partners, using a slide of a man without legs to illustrate his point. "We find that remark, and especially the illustration, to be in extremely poor taste," says Baidu spokesman Kaiser Kuo.

In June, Tencent bought 11 percent of Chinese mapping company **NavInfo**. Tencent said in an e-mailed statement that the two companies are working together to add more detailed real-time traffic info and location-based ads such as restaurant coupons to Tencent Map. The app covers 364 cities, including street-level views in 137. Its latest service, WeDrive, beams phone navigation and entertainment to a car's video screen.

During the Lunar New Year, Baidu heat maps showed users flowing out of the country's cities for the holiday. Alibaba is integrating its mapping technology into cars, jointly developing an Internet-connected car with **SAIC Motor**. "All the Internet giants in China want to move to exploring more opportunities in location-based services," says Ashley Sheng, an analyst at SWS Research in Shanghai. "Mapping is one of the best ways to help them achieve that." —*Lulu Chen and Edmond Lococo*

The bottom line China's Big Three Internet companies are battling for control of the map market and $564 million in mobile ads.

Innovation

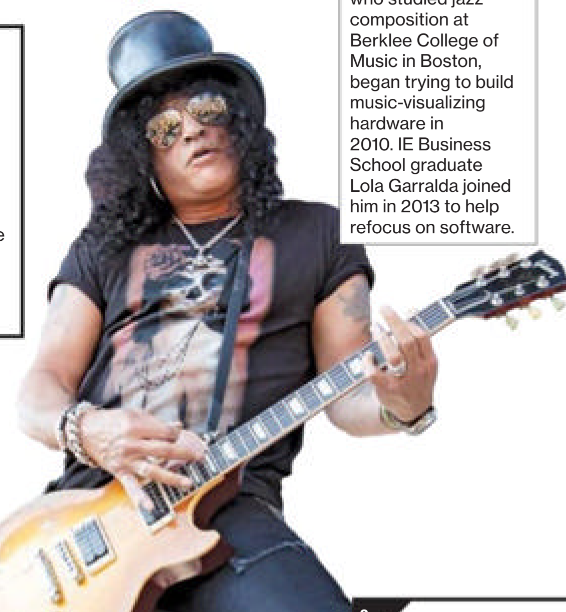
Pentagrom Screen

Form and function
Pentagrom Screen's free software displays played or sung notes in real time to make learning and practicing music easier. Users don't need to know how to read music to work with it.

Innovator Jaime Iglesias
Age 43
Title Co-founder of Pentagrom, a five-year-old music education startup in Madrid

1.

Setup A musician connects his instrument or microphone to a Pentagrom-equipped computer using a standard $40-and-up MIDI converter, then starts performing.



Origin Iglesias, who studied jazz composition at Berklee College of Music in Boston, began trying to build music-visualizing hardware in 2010. IE Business School graduate Lola Garralda joined him in 2013 to help refocus on software.

Funding Iglesias and Garralda have raised about €100,000 ($106,000) from family and friends and received a €20,000 grant from Spain's Ministry of Culture.

Revenue Pentagrom has been meeting with companies such as Yamaha and Sony Music Entertainment about licensing its software.

2.

Translation Pentagrom's software turns live mic or instrument signals into notes as they'd appear on sheet music, teaching through association rather than repetition. Users can also upload particular songs to assess their accuracy as they play.

Next Steps

Pentagrom Screen was introduced on the company's website on April 6, and the co-founders say they'll solicit an additional €40,000 to €70,000 through crowdfunding as they upgrade the software to record music and work on smartphones. David Williams, a music education consultant in Bloomington, Ill., says Pentagrom's real-time feedback is "very useful," but warns that music educators may be slow to adopt such software. —*Nick Leiber*

April 20 — April 26, 2015

PHOTO ILLUSTRATION BY 731; PHOTO: GETTY IMAGES

Where Peer-to-Peer Loans Are Born

▶ WebBank provides the money that gets it all started

▶ "They saw an opportunity to drive some niche business"

One of the most profitable banks in the country fits on the eighth floor of a Salt Lake City office building. It has no grand entrance for clients—it's mainly just cubicles, conference rooms, and a break area with machines that dispense free candy.

WebBank is like one of those machines for its primary owner, investor Warren Lichtenstein. Last year its 38 employees generated more than $400,000 in profit apiece, about four times the amount at JPMorgan Chase. While that added up to only $15.5 million, WebBank's return on equity was 44 percent—a level of profitability that dwarfs the 33 percent Goldman Sachs reported in its best year as a public company, and about five times the current average for U.S. banks.

The bank is so profitable because it dominates a rapidly growing, low-risk business: providing money to companies that arrange peer-to-peer loans. Apply for a loan with **LendingClub**, the biggest of those online markets, and WebBank issues it. Two business days later, LendingClub buys the loan and parcels it out to the investors who pledged to fund it. WebBank collects interest on the money for that window and earns a fee from LendingClub.

Early on, WebBank's executives made a shrewd choice to focus on specialty lending, says Gerry Smith, who served as WebBank's president and chief executive officer from 2005 to 2008. "They saw an opportunity to drive some niche business rather than compete with everybody else," he says. That strategy isn't without risks, because WebBank could find its business threatened if regulators decide to restrict the burgeoning peer-to-peer industry.

LendingClub disbursed more than $4 billion in 2014, most of which came from WebBank. **Prosper Marketplace**, No. 2 in the peer-to-peer industry, used WebBank while arranging $1.6 billion in loans last year. LendingClub and Prosper don't originate loans themselves because they don't have—and don't want—banking licenses. Turning to a third party to create the loans lets them avoid regulatory costs, and being viewed as technology companies rather than financial firms improves their image with investors. LendingClub, which went public in December, has ▶

◀ a market value of about $7 billion. It posted a loss last year.

Among WebBank's other clients are **PayPal**, which relies on it for a program that extends credit to small businesses, and retailer **Fingerhut**, which encourages customers to buy everything from jewelry to electronics in monthly installments, with WebBank providing the credit at annual interest rates of almost 25 percent.

WebBank has a mere $226 million in assets on its balance sheet, and the short-term lending that makes up the bulk of its business doesn't require it to hold a big cushion against losses. Its profit more than tripled from 2010 through 2014, according to FDIC data. "One of the beauties of these partnerships is you don't have to devote much capital to it," says Smith, the former CEO. "You're more of a pass-through." Both Lichtenstein and WebBank, now led by Executive Chairman John McNamara, declined to comment.

WebBank

Location	**Salt Lake City**
Total assets	**$226m**
Employees	**38**
Return on equity	**44%**

In the late 1990s, Lichtenstein, then a thirtysomething activist investor with a reputation for buying small, underperforming companies and pushing them to make major changes, took control of a North Carolina discount retailer known as Rose's. The company soon sold off stores and acquired a lending operation, WebBank. In 1999, Rose's changed its name to WebFinancial as it shifted its focus away from selling merchandise to lending.

In 2008, Lichtenstein merged WebFinancial with his main hedge fund to help deal with investor withdrawals during the financial crisis. The resulting company, **Steel Partners Holdings**, is publicly traded, with Lichtenstein, now 49, serving as chairman and ranking among its largest shareholders. Along with WebBank, which it owns outright, Steel Partners holds stakes in manufacturers, energy businesses, and **Nathan's Famous**, the hot-dog chain.

Former employees describe WebBank as having a button-down culture rather than the freewheeling creativity of some of the Internet startups it counts as clients. The executives who manage the bank's partnerships make low-six-figure salaries, and once a month the company rewards its staff with a catered lunch, says Sean Salter, who left at the end of last year. Workdays typically last 10 to 11 hours, he says. "They're handling massive amounts of business, and they don't have a lot of overhead," Salter says. "It felt like we were running on a small budget."

If regulators decide to rein in the online lending industry, a natural place to exert pressure is WebBank, because its banking license subjects it to their oversight, according to Michael Tarkan, an analyst at Compass Point Research & Trading. "It's surprising to people how many lenders use this small funnel to originate a significant number of loans," he says. "It's a potential target for regulators."

One question is whether WebBank is involved enough in the lending process. Courts have disagreed over what it takes for a bank to call itself the lender when its partners are the ones arranging and servicing the debts, says Richard Eckman, head of the financial-services practice at law firm Pepper Hamilton. If a judge were to decide that WebBank cannot create loans unless it holds them longer and does more to vet borrowers, the business model for online peer-to-peer lending could fall apart. On the other hand, if the online lending boom continues to be so lucrative, WebBank will probably face more competition. "I have no doubt that other banks will be taking a hard look at this structure," Eckman says. "It's a way for a bank to make a lot of money." —*Noah Buhayar*

The bottom line Dominating a small but lucrative niche, WebBank made $15.5 million with 38 employees last year.

Wealth

The Big Business of Being Sergey Brin

▶ It takes a company to manage the billionaire's money—and life

▶ Hiring people who can "keep the families' private lives confidential"

Running Sergey Brin's family affairs is a full-time job—and it takes dozens of people. The **Google** co-founder, who's worth about $30 billion, has ex-bankers and philanthropy experts working at his family office, **Bayshore Global Management**. Brin also has employed a former Navy SEAL for security, a yacht captain, a fitness coordinator, a photographer, and an archivist, according to profiles on LinkedIn.

All in the Family

There are now more than **14.6**

Bayshore, based in Los Altos, Calif., shows how family offices, set up to manage money for the wealthy, also help them with every aspect of their daily lives. As the number of billionaires has swelled in recent years, so have opportunities for people who can cater to the needs of the wealthy and be discreet about it. "Family offices are expanding, and people are setting new ones up," says Natasha Pearl, chief executive officer of **Aston Pearl**, a consulting firm serving single-family offices that manage at least $400 million. "It's increasing demand for employees who can be trusted to keep the families' private lives confidential."


Google co-founder Brin

There are now more than 14,600 families with at least $100 million in assets globally, up 42 percent since 2008, according to Boston Consulting Group. Many of these have set up their own offices to help manage their investments and day-to-day lives. The firms employ about 20,000 people worldwide, according to researcher Campden Wealth, which started collecting the data last year. The family offices serving billionaires usually have at least 50 people on staff and multiple teams including executive, administrative, and investment groups.

That's an increase of **42%** since 2008

Vulcan, the Seattle company started by Microsoft co-founder Paul Allen and his sister, Jody Allen, employs more than 500 people. Its ranks include an in-house media company, a 17-member unit managing a multibillion-dollar investment portfolio, sports teams, and a division that's working on

FROM LEFT: MGOETZ/SPLASH NEWS; COURTESY THE AMAZON TEAM

Family offices around the world employ about 20,000 people

k families worldwide with assets of at least $100m

space travel. Vulcan is in the process of hiring a chief investment officer and a wildlife conservation expert, among other positions. Allen, who's worth $16.9 billion, according to the Bloomberg Billionaires Index, named Vulcan after the Roman god of fire. He's also a *Star Trek* fan.

Bayshore takes its name from North Bayshore, the section of Mountain View, Calif., where Google has its headquarters. It's existed since at least 2006, two years after Google went public. It has recruited employees from Google, Goldman Sachs, Deutsche Bank, and other family offices, according to LinkedIn profiles of people who say they work for Bayshore. It has employed at least 47 people, according to U.S. Department of Labor filings. These include a chief of staff and manager of the family's New York City home, who oversaw construction, recruited domestic staff, and provided personal shopping. Bayshore representatives declined to comment on its operations.

Brin, 41, who came to the U.S. from the Soviet Union as a child with his family, is the 21st-richest person in the world, according to the Bloomberg Billionaires Index. With his wife, Anne, he runs the Brin Wojcicki Foundation, which disburses charitable donations and supports human rights. He also owns **Passerelle Investment**, a real estate investment firm, which has bought properties in Los Altos to help revitalize the town for businesses and families.

Bayshore also has a professional group dedicated to the family's physical safety. It includes the former Navy SEAL to provide protection, a former U.S. Secret Service agent to direct security operations, and a former SWAT team leader to oversee the family's properties and emergency procedures.

Some of the largest family offices have operation centers to monitor people and property, says Christopher Falkenberg, a former Secret Service agent and founder of Insite Security, which provides protection services. There are layers of personnel including former military and law enforcement experts who are responsible for locks on doors and gates, background checks on staff, and managing travel and aircraft security, he says, and they don't come cheap: A security director who's a former FBI agent can earn at least $200,000 a year.

Salaries at family offices vary widely, says Pearl, whose firm has helped families hire cybersecurity experts, find college advisers, and create procedures for staff. Private chefs can command salaries from $40,000 to as much as $200,000 a year with full benefits, depending on whether they have top restaurant experience and have worked with other wealthy families. "It's not like the 'blue book,' where you look up chief risk officers or chefs and there are standard comp rates," Pearl says. "It's a very fragmented market." —*Margaret Collins*

The bottom line Brin's Bayshore Global Management has employed at least 47 people to tend to his financial and personal affairs.

Commodities

An Amazonian Nut Feeds a Face-Oil Boom

▶ No one chops down cacay trees for firewood anymore

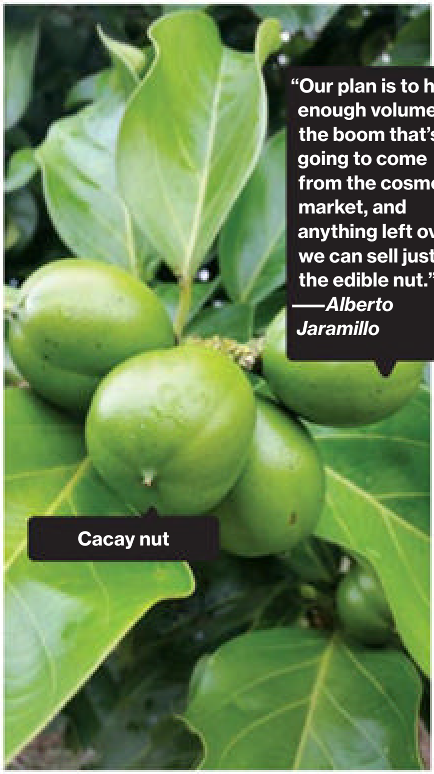
▶ "I won't let even one nut go to waste"

For decades, if not centuries, the Amazon dwellers of southern Colombia fed cacay nuts to their livestock, used them to treat wounds, and chopped down the trees for firewood. That was before beauty-conscious big spenders discovered what the yellowish oil from the protein-rich nut could do for their skin. Suddenly, the cacay (pronounced kahk-ai) has become a hot commodity, providing the key ingredient to anti-aging facial creams that can fetch $200 an ounce at beauty counters in Los Angeles and London.

While most of the nuts come from wild trees in remote areas, new plantations are popping up in impoverished parts of Colombia known mainly for cocaine and antigovernment rebels. Vitaliano Ordoñez, a farmer who used to give the nuts to his cows, sold eight of the animals to buy 120 saplings. Because only a few are mature enough to produce nuts this year, he's scavenging every kernel from two old trees on his small dairy farm in Puerto Rico, Colombia, 190 miles southeast of Bogotá. "I won't let even one nut go to waste," says Ordoñez, 70.

The cacay boom is in part the work of Alberto Jaramillo, chief executive officer of **Kahai**, a company formed to develop products from Colombia's plant life. While scientists have highlighted the nut's virtues for more than a decade, it was Jaramillo who found a market for the oil after attending trade shows and arranging a trial study of the oil's use in skin care. "It's an interesting combination to have a really effective product that also has a really nice sustainability story," says Judi Beerling, a research manager at consulting firm Organic Monitor in London.

Sales of face oils are rising, sparking new products from **L'Oréal** and **Procter & Gamble**'s Olay brand made of everything from grape and apricot seeds to lavender and marjoram. Beauty-oil sales at **Sephora** tripled in three years. In the U.S., where high-end facial skin-care sales have been ▶



Cacay nut

flat over the past year, face-oil sales surged 24 percent, to $42 million, data from NPD Group show.

"It's going to be the new little wave," says Jamie Sherrill, who uses cacay in some of the Nurse Jamie skin-care products she sells at her Santa Monica (Calif.) spa. "I was always a fan of retinol and argan oil, and we were initially searching for ways to improve on these two ingredients." Sherrill, who appeared with Paris Hilton on the reality show *The Simple Life*, offers a 1-ounce "facial elixir" with cacay for $198 and a men's shaving-oil version. A three-item set of Nurse Jamie anti-aging products with cacay retails for £1,060 ($1,555) at Harrods department store in London.

Some companies are holding off on using cacay because there isn't sufficient production to create a stable supply of oil, says Jaramillo, adding that it could take three years to reach that level. "Our plan is to have enough volume for the boom that's going to come from the cosmetic market, and anything left over we can sell just as the edible nut," he says. Kahai forecasts that it will sell 1.2 metric tons of oil from this year's harvest, double last year's total, and output will expand as the 247 acres already planted with cacay trees start producing.

Price of a 1-ounce bottle of "facial elixir" made with cacay oil

Kahai sends workers through the countryside on motorcycles and trucks to hunt for trees and gather nuts, and encourages farmers like Ordoñez to plant more trees. Each apple-size nut pod contains three seeds, each bigger than an almond. During the harvest season from February to April, one mature tree can yield 400 kilograms (882 pounds) of nuts. Kahai pays 1,000 pesos (39¢) a kilo for whole nuts, so about 400,000 pesos per tree. It takes 2 kilos of kernels to make 1 liter of oil. "It's more expensive than a lot of your regular oils," says Beerling of Organic Monitor. "As more becomes available, obviously the prices will become less of an issue."

Ordoñez expects to collect about 60 kilos of cacay kernels this year. That may net him 300,000 pesos—equal to about half the country's minimum monthly wage—augmenting his earnings from milk and cattle sales. "That's how I live, with little money," he says. "Cacay is something I think a lot about because I have a lot of faith that it will work out for me." —*Christine Jenkins*

The bottom line In demand as an ingredient in face oil, cacay nuts fetch 39¢ a kilo in Colombia, providing extra income to farmers.

Banking

China's Former IPO King Looks for a Fresh Start

▶ Once the leading investment bank, CICC needs a new strategy

▶ "The firm has hit a bottleneck and is stuck in the middle"

China International Capital Corp. was once known as China's answer to Goldman Sachs. Run by **Levin Zhu**—the son of then-Premier Zhu Rongji—it helped take some of the country's biggest companies public, including China Construction Bank and China Petroleum & Chemical. The era of mega-IPOs is gone, and so is CICC's dominance. It hasn't been China's top investment firm since 2005 and has fallen over the past decade from first place in revenue to 21st in 2013.

Now Zhu is gone, the bank has new leadership, and it's planning an initial public offering this year to raise capital and expand into new businesses—moves that Zhu once resisted. "The firm has hit a bottleneck and is stuck in the middle," says Chi Man Wong, an analyst at China Galaxy Securities in Hong Kong. "They have a decent investment banking business, but that's not an exciting story, and I can't see a growth driver."

The man who ran investment banking at CICC during its heyday, Bi Mingjian, returned as its chief executive officer in March, filling the position vacated when Zhu resigned in October. The IPO he'll oversee, which may raise $1 billion, would potentially double the capital that CICC could use to support margin lending and its brokerage and asset management businesses, big sources of revenue for CICC's rivals.

"CICC will be a latecomer, and it's questionable if they can be a meaningful player in those businesses operated by existing rivals"

The expansion is crucial because the industry has shifted from a focus on taking companies public to providing a range of financial services to corporations and wealthy individuals. Net revenue from traditional investment banking—underwriting stock and bond issues and providing financial advice to corporations—fell to 12 percent of the investment banking industry's total revenue last year, from 17.8 percent in 2011, according to the Securities Association of China. Over that time, investment income—what the companies earn from trading for their own accounts and other market activities—jumped to 27 percent, from 3.7 percent. "The market landscape has undergone dramatic changes, and it's no longer investment banking-focused," says Bei Duoguang, who worked with Bi at CICC and now runs his own microfinance business. "It's critical to see if CICC can adjust strategy according to the market changes amid the intensifying competition."

Bi was most recently a partner at private equity firm Hopu Investment Management in Beijing. He'll "have some catching up to do" to oversee a wider portfolio, says Bob Dodds, who worked at CICC with Bi for seven years and now heads DRP Capital, which advises on cross-border China acquisitions. "They have to develop new products and find new revenue sources," Dodds says. "Sometimes that also requires a different style of banking and a different type of team as well, so they've got a lot of challenges." Bi and CICC declined to comment.

When CICC's 2014 results are released in late May, they will show a 60 percent increase in revenue from the year before, thanks mainly to the end of the government's 14-month ban on IPOs at the start of the year, according to two people familiar with the numbers who asked not to be identified because they aren't yet public. The recovery is in line with the industry's: Revenue at 120 securities firms totaled 260.3 billion yuan ($41.9 billion) last year, a 63 percent increase from the year before, when 115 companies were

FROM LEFT: COURTESY NURSE JAMIE; JEROME FAVRE/BLOOMBERG

tracked, according to the Securities Association of China.

China expanded the scope of its securities industry in 2012, allowing for the first time such activities as lending money for the purchase of stocks and bonds and the use of securities as collateral for loans. CICC's competitors were quick to seize the opportunities. By 2013, **Citic Securities**, with 5 billion yuan in fees and commissions, ranked first in generating revenue from margin financing, followed by **Guotai Junan International Holdings** and **Huatai Securities**. That year, CICC earned 1.9 billion yuan in fees and didn't show up in the Securities Association of China rankings. "CICC will be a latecomer," says China Galaxy's Wong, "and it's questionable if they can be a meaningful player in those businesses operated by existing rivals."

During his 12 years at the helm of CICC, Zhu resisted expansion and didn't take advantage of China's stock market boom in the mid-2000s by moving into proprietary trading or buying brokerages, according to people who worked with him at the time and asked not to be identified because they're not authorized to speak publicly. Zhu couldn't be reached for comment.

Several top CICC executives left during Zhu's tenure because of his reluctance to accept outside ideas, people who worked with him said at the time. Bi stepped down from his post as co-head of investment banking in late 2005 and was assigned to work on CICC's fledgling business in the U.S., according to two people familiar with his departure. Other high-profile bankers who left include managing director Ding Wei, who joined Temasek Holdings in 2011, and Jiang Guorong, executive chairman of investment banking, who joined UBS last year.

Bi has CICC's brand and connections to build on, says Wong, but those won't help without a clear strategy. "They need to find their own niche," he says. "It's not clear where the company is heading next, and the new management needs to tell investors what its road map is three years down the road."

—*Cathy Chan and Sheridan Prasso*

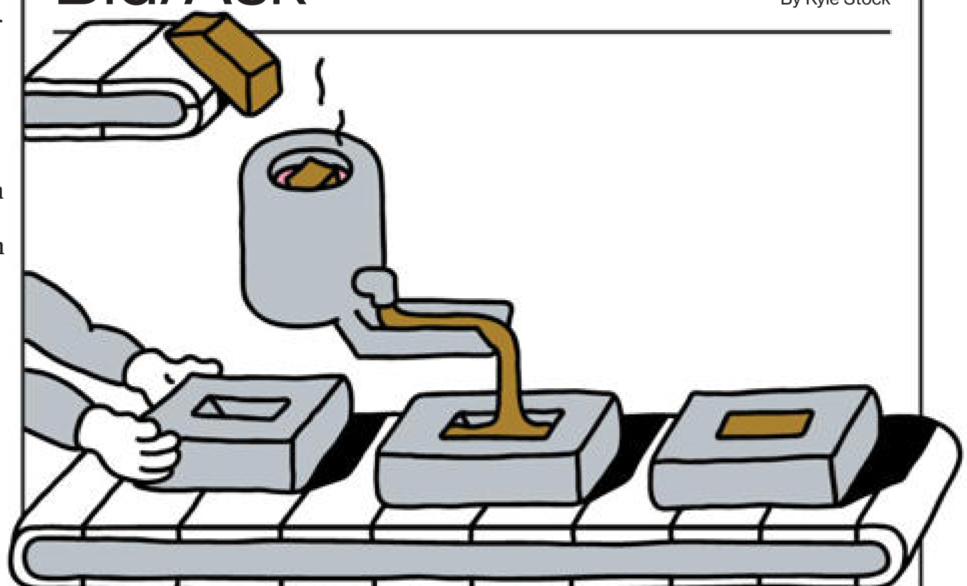
The bottom line Raising as much as $1 billion from an IPO would give CICC money to invest in margin lending and brokerage operations.

Edited by Eric Gelman
Bloomberg.com

BID/ASK ILLUSTRATIONS BY OSCAR BOLTON GREEN

Bid/Ask

By Kyle Stock



$1.5b

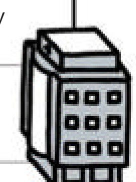
Two gold miners meld. Alamos Gold and AuRico Gold, both based in Toronto, are merging. The companies own two mines in Mexico and one in Ontario that combined will produce 375,000 to 425,000 ounces this year. A copper and gold site in British Columbia will be spun off. In the past three years, the price of gold has slipped about 27 percent, prompting consolidation in the industry.

$16.6b — **Nokia buys Alcatel-Lucent.** The acquisition will make the Finnish company the biggest maker of the equipment that underpins mobile phone networks.

$6.4b — **Exor bids for PartnerRe.** The offer from the Italian investment company may scuttle a merger agreement between PartnerRe and Axis Capital Holdings.

$1.6b — **Builders FirstSource buys ProBuild.** The deal gives Dallas-based Builders a network of retail stores, lumberyards, and millwork shops across 40 states.

$1b — **Apollo Global Management stocks up on student loans.** Leon Black's company will invest in loans arranged by LendKey, an online peer-to-peer lender.



$308m — **Malaysia flips London office space.** The country's pension fund sold One Sheldon Square, a nine-story building, to British Land.

$30m — **Chinese painter sets record.** At a Hong Kong auction, Cui Ruzhuo's eight-panel landscape of a snowy mountain range fetched more than any work by a living Asian artist.

$20m — **Apple acquires an Israeli camera company.** LinX Computational Imaging makes tiny cameras for tablets and smartphones that use proprietary algorithms.

Focus On/ Mobile

April 20 — April 26, 2015

Free's a Crowd

▶ Developers of giveaway mobile games bet on kittens and celebrities

▶ "It's very easy to lose the consumer"

Philip Lau is an expert at wrangling cats—for the small screen. A creative director at **Animoca Brands**, he has helped the Hong Kong-based startup produce several popular mobile games starring famous felines. Among them, Doraemon, a blue robot cat that's one of the biggest stars of Japanese anime, and Garfield, the overweight tabby that's a regular in the comics section of U.S. newspapers. Like most kitties, they set their own rules. According to Doraemon's brand guidelines, for example, games featuring the character cannot have killing or violence. The latest title, like its two predecessors, is carnage-free. Says Lau: "You don't see any explosions, any blood, so it's all right."

With a crew of 70 employees, Animoca releases three to five titles a month. Like the vast majority of games on app stores, Animoca's are free to download. The company makes money from advertising and from getting customers to make in-game purchases that endow their characters with special powers or outfit them in new clothes. Animoca boasts a string of hits in Asia: Doraemon Gadget Rush, the newest game in the series, surpassed 1.8 million downloads less than two weeks after its release in early February, according to the company; its Garfield titles have been downloaded more than 30 million times.

There are now about 1.2 million free-to-download mobile games available on both Google Play and Apple's App Store, estimates Animoca Chief Executive Officer Robby Yung. And that number is growing: According to a January report by researcher AppFigures, the number of games at Google's app store increased more than 250 percent in 2014.

The competition is about to get even more brutal. On March 17, **Nintendo** announced it was teaming up with another Japanese company, **DeNA**, to make games for smartphones and tablets that may feature Mario, Zelda, and other characters from its popular games for consoles. Nintendo's stock price has climbed 41 percent since the news. The bigger companies "have scale and can afford the costs," says David Gibson, an analyst with Macquarie Group in Tokyo. "The middle guys, the ones that are not big enough yet, will get squeezed." Among those potentially at risk are game studios like Animoca, **Kiloo**, the Danish outfit responsible for the highly popular Subway Surfers, and **Miniclip**, the Swiss shop behind Berry Rush. Four-year-old Animoca has yet to turn a profit. In the first half of 2014, it posted a loss of $505,000 on revenue of $2.1 million.

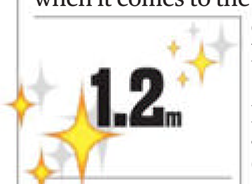
Companies like **Electronic Arts** and **Activision Blizzard** spend tens of millions of dollars to develop a console product, targeting hard-core gamers who are willing to spend $60 or more for the most popular titles. Mobile games are much cheaper to produce but must reach a large and diverse audience to succeed. Makers of so-called ▶

PHOTO ILLUSTRATION 731; SOURCE: ANIMOCA BRANDS (10)

◀ casual games actively court female customers—an audience video and console developers largely ignore. Animoca's Yung says young mothers especially have become important. "They have time; they have high purchasing power," he says. Consumers in low-income countries, who cannot afford to splurge on a Microsoft Xbox or Sony PlayStation, are another important audience.

"If you want a feather in your cap, you want to get to No. 1 in the U.S., Japan, or Korea," says Yung. "That's the badge of honor." Most developers of free mobile games have a goal beyond millions of downloads: They have to get players hooked. That's because they're dependent on advertising and in-game purchases of accessories for revenue. "It's very easy to lose the consumer," says Gibson. If users have "made no money commitment," he says, they're less likely to stay loyal.

Lau's team typically spends the weeks after a new release analyzing the gaming habits of players. How long do they stay with the game? Do they return the next day and play some more? Do they uninstall the app after just a few sessions? Their research has revealed that small things can make a difference. Downloads of Little Farm: Happy Times, an agriculture simulation game introduced last year, improved after developers redesigned the game's app store icon. A cartoonish farmer was replaced with a smiling cow, proving once again that when it comes to the Web, animals, even cattle, trump humans.



Estimated number of free games on Google's and Apple's app stores

Giving away product has a cost—and it's rising. Game developers must pay a site like **Facebook** each time somebody clicks on an ad to download a game. The fee has soared in Japan, the world's biggest mobile gaming market: In mid-2013, the cost per installation on Apple's Japanese store was $1.35; by the end of 2014, it had risen to $2.98.

Animoca is branching out from cartoon characters by embracing a female-centric trend in the industry. In February it announced a partnership with the heiress-celebrity Paris Hilton. It's part of an industry shift that began last year when **Glu Mobile** introduced a mobile game called Kim Kardashian: Hollywood. It contributed 38 percent of the company's revenue in the fourth quarter. Earlier this year, Glu revealed it's working with singer Katy Perry on another title. Yung, who hopes to unveil the first game with Hilton this summer, is betting that players of the fashion-themed app will be eager to fork over money for all sorts of extras, from red-carpet-worthy outfits to the ultimate extravagance, impersonating Paris herself. "If you want to be Paris in the game, that would be an upgrade," says Yung. "You would have to pay for that." —*Bruce Einhorn*

The bottom line Makers of free-to-download mobile games face growing competition, as a console game maker joins the fray.

Handsets

Signs of Life in a New Galaxy

▶ **Samsung's S6 may vault the company back into the top spot**

▶ **"Many people shifted to Apple's bigger iPhones late last year"**

Investors are betting that **Samsung Electronics** is poised to recoup its title as the world's top maker of smartphones. For evidence, look no further than the $12 billion increase in the company's market value since March 1, when it unveiled a pair of new handsets at the Mobile World Congress in Barcelona. The Korean giant is counting on the sixth generation of its flagship Galaxy phone, plus the second edition of the Edge, a phone with a screen that curves along its length, to put it back in the lead after it slipped into a tie with **Apple** in the fourth quarter. "We expect Samsung to regain its position as the world's clear No. 1 by volume" in the first quarter of 2015, says Neil Mawston, executive director of Strategy Analytics.

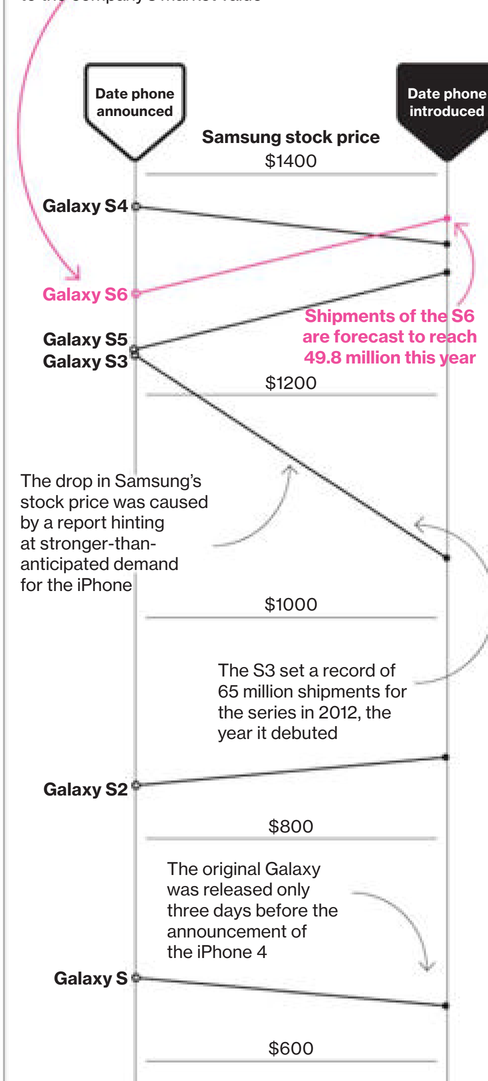
Both Samsung devices have generated positive buzz among reviewers, many of whom panned the Galaxy's previous iteration. Tech-focused website CNET tags the S6 a "stunner," while the influential review site Wirecutter deems it the best Android premium handset. "The market, carriers, and even consumers are all on the same page that Samsung's new phone is different from the past

New Phones in Stock

Buzz following the March 1 introduction of the latest generation of Samsung's flagship Galaxy smartphone added

$12b

to the company's market value



SALES FIGURES: ANALYSTS SURVEYED BY BLOOMBERG; DATA: BLOOMBERG

models," says Keon Han, an analyst at Credit Suisse Group in Seoul.

At an event Samsung staged on April 9, a day before the new Galaxy went on sale in the U.S. and 19 other countries, the head of mobile sales and marketing, Lee Sang Chul, predicted "record sales" and said demand for the pricier Edge model would exceed supply. Samsung will ship 49.8 million S6 phones this year, according to an average of eight analysts recently polled by Bloomberg, which would be an improvement over the ▶

THERE'S A MYTH OUT THERE THAT YOU CAN'T DO IT ALL.
THE ALL-NEW RAM PROMASTER® CITY
ONE COMMERCIAL VAN, TWO CONFIGURATIONS
As either a cargo van or five-passenger wagon, it's the best way to do business.
THE BIG PICTURE FITS IN BACK
With best-in-class payload, the ProMaster City is geared to tackle everything on your list without an ounce of hesitation. Best-in-class cargo capacity means less time spent reloading and more time spent getting things done.
THE POWER TO INTIMIDATE
Ram's 2.4L Tigershark® gas engine generates best-in-class 178 horsepower and 174 LB-FT torque. Combine that muscle with an exclusive 9-speed transmission, and you get an unsurpassed standard 29 MPG HWY. It's a smarter and more efficient engine: It operates longer at lower RPMs, and the unique clutch technology results in smoother shifts and a smoother ride. Acceleration is also improved–0 to 30 takes 3.7 seconds.
CURB APPEAL
The 60/40-split rear doors are designed with deliveries in mind. The driver's-side door opens first, allowing you maximum access to your cargo and a clear path to the curb without the passenger rear-door obstruction seen on other vans.
BEST-IN-CLASS PAYLOAD 1,883 LB.
5-YEAR 100,000 MI. LIMITED POWERTRAIN WARRANTY
BEST-IN-CLASS CARGO ROOM 131.7 CU-FT
RAM COMMERCIAL
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◀ performance of the previous model but short of the high-water mark of more than 65 million set by the S3, which was released in 2012.

Samsung said earlier this month that its operating profit for the quarter ended on March 31 will likely slump 31 percent, to 5.9 trillion won ($5.4 billion). Its second-quarter profit, which would include S6 sales for the full three months, may rise to 7.4 trillion won, from 7.2 trillion won a year earlier, according to the average of 24 analyst estimates compiled by Bloomberg.

The road back for Samsung is steeper following Apple's recent surge, driven by brisk sales of the bigger iPhones it introduced in September. Those handsets have lured away consumers from Galaxy devices. To better compete, Samsung has upgraded the materials used in the body of the S6, phasing out plastic in favor of a combination of glass and metal, mirroring the look of other premium handsets, including the iPhone and the **HTC** One, Galaxy's main competitor among high-end Android phones. The S6 and the Edge also feature the latest generation of the Android operating system, called Lollipop, and are packed with Samsung's most advanced parts, including its own processor and modem chips, as well as ultrathin screens, all of which will help bolster profit margins at its component businesses. Another key feature: a fingerprint reader that authenticates transactions on Samsung's proprietary mobile payments software, the company's answer to Apple Pay.

Mawston says the S6 will help shore up Samsung's position in China and India, though he's not counting on an "instant major recovery" in those markets. Competition from local rivals whittled the Korean company's market share in China, the world's largest mobile market, to 7.9 percent in the final quarter of 2014, from 18.8 percent a year earlier, according to figures compiled by researcher IDC. Beijing-based **Xiaomi** ascended to first place, with a 13.7 percent share in the fourth quarter, while Apple took second, with 12.3 percent. In India, Samsung is tussling with local upstart **Micromax** for leadership in the world's fastest-growing mobile market, and researchers are divided over which company is ahead.

Samsung also faces a test in the U.S., where its market share slipped 7 percentage points, to 21.1 percent, according to Strategy Analytics. Apple, meanwhile, racked up 3 additional points, closing the year at 44.4 percent. Despite the widening gulf, the Korean company has resisted the temptation to underprice its American rival. The websites of **Verizon**, **AT&T**, and **Sprint** all list the price of a Galaxy S6 at $199, when purchased with a two-year service contract, which is on par with the iPhone 6. Lee Min Hee, an analyst at I'M Investment & Securities in Seoul, says he doubts that Samsung's new handsets can turn the tide in the U.S., at least in the short term. "Many people shifted to Apple's bigger iPhones late last year, so we can't expect iPhone fans to switch back to a new Galaxy anytime soon." —*Jungah Lee*

The bottom line Samsung's market value has jumped $12 billion since March amid high expectations for its new smartphones.

Startups

Meerkat, Periscope, Been There, Done That

▶ **At least a dozen companies have taken a crack at live mobile video**

▶ **"All of a sudden everyone started saying, 'This is fun, not creepy'"**

Live mobile streaming is having a moment. **Meerkat** and **Periscope** made their app store debuts in March and quickly developed a following that included celebrities such as Jimmy Fallon and Jared Leto, who have used the software to connect with fans. Meerkat and Periscope didn't discover live streaming to and from smartphones, though. At least a dozen pioneers with names like **Bambuser** and **Ustream** introduced services initially aimed at consumers but pivoted when the hoped-for revenue from subscriber fees or advertising didn't materialize. "We've seen a lot of different live-streaming platforms, and most of them have not survived or gone anywhere," says Dan Rayburn, an analyst at Frost & Sullivan.

"We've seen a lot of different live-streaming platforms, and most have not survived or gone anywhere."
—*Dan Rayburn*

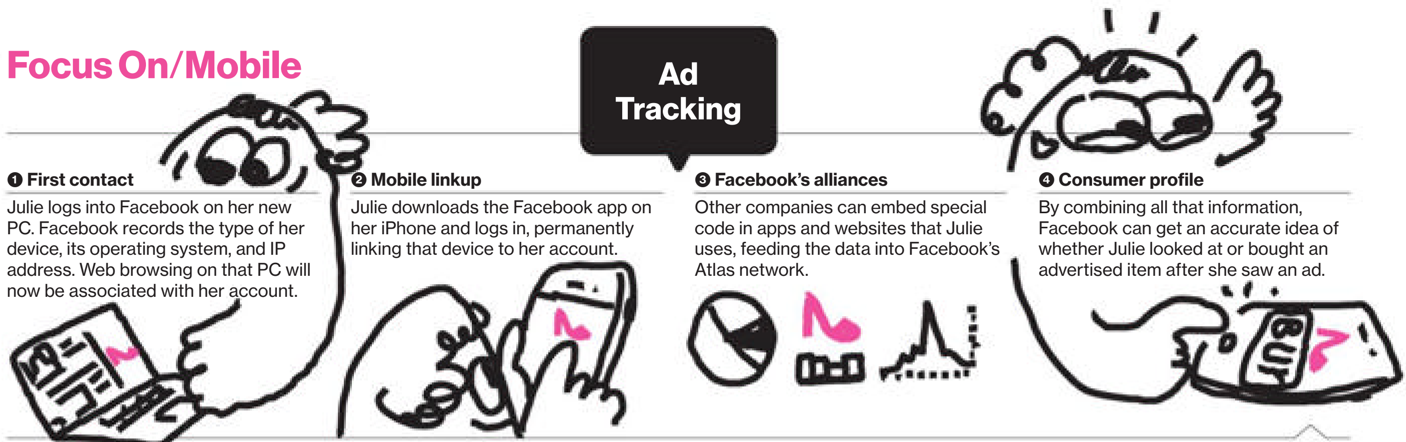
Among the oldest in this bunch is Ustream, launched online in 2007 by a pair of students at a military academy, one of whom was frustrated about being unable to watch his brother's rock band perform live. Today the company makes money by charging 5,300 corporations fees to use its sofware to send live video streams to customers and employees. Chief Executive Officer Brad Hunstable says that revenue, which is in the tens of millions, jumped 121 percent last year, helped by a roster of celebrities, including singers Taylor Swift and Lady Gaga, who use the service to connect with fans.

Justin.tv, which also started in 2007, refocused its business on video gamers, renaming itself **Twitch**. It was acquired by Amazon.com for $970 million last year. Users can watch well-known gamers in action or view live interviews with game developers. The company makes money from advertising, subscriptions to broadcasts (a quarter of viewers use mobile devices), and T-shirt sales. Twitch's vice president for marketing, Matthew DiPietro, says that he and his colleagues were caught a bit off guard by all the attention Meerkat and Periscope have attracted, "because the idea of broadcasting video from a mobile phone has been around for a long time."

Bambuser, which went live in 2008, started as a platform for citizen journalism. In 2011, when the Arab Spring was in full flower, Bambusers in Egypt posted more than 10,000 live broadcasts in a single day, according to CEO Jonas Vig. Earlier this year, the company, which has offices in Stockholm and Turku, Finland, introduced a version of its software that it's making available to media companies under license—50 are currently testing the product, says Vig. Bambuser's investors include the Associated Press.

Twitter bought Periscope in January, two months before it launched, for a reported figure of close to $100 million. Meerkat announced a $14 million funding round from a group that included Leto, YouTube co-founder Chad Hurley, and the venture capital firm Greylock Partners in March. Neither Meerkat nor Periscope responded to requests for comment. ▶

MICHAEL NEELON/ALAMY



◀ Josh Elman, a partner at Greylock, who used to be an adviser to Ustream, thinks Meerkat can make money from advertising and by charging for premium content. "Societally, we are ready to be in the moment and share your life with other people," he says. "When Meerkat launched to the world, all of a sudden everyone started saying, 'This is fun, not creepy.' "

The excitement generated by Periscope and Meerkat has had a spill-over effect on older rivals. Ustream, which has raised $60 million from investors and is close to being profitable, may raise more money or go public "at some point," according to Hunstable. Or it might get sold. "Video is hot right now, very hot, so you can imagine the discussions we're having," he says.

—*Olga Kharif*

The bottom line A handful of live-video-streaming pioneers have survived by creating a niche or courting corporate customers.

Advertising

Facebook Solves the Global Cookie Shortage

▶ The company tracks app users across devices to prove ads work

▶ "If you can connect the dots backwards, you can understand"

For advertisers, one of the Web's advantages over TV is the ability to track which ads get clicks and lead to sales. However, most mobile apps block cookies, leaving marketers blind. This cookie crunch has become a full-blown crisis as shopping on smartphones and tablets has exploded. Last year, U.S. marketers bought about $19 billion worth of ads on phones and $32 billion on PCs, according to researcher EMarketer; this year, the company estimates, the total will be $29 billion on phones and $30 billion on PCs.

Spending on mobile ads is on track to surpass PC ads next year

Enter **Facebook**, which promises the more than 1 million businesses that advertise through its Atlas Solutions network that they can follow 1.4 billion users from PCs to smartphones to tablets and back. To use Facebook, you have to log in, and the social network records identifying information about each device you've logged in from. That data is stored in your profile, so Facebook knows it's you online, even when you're visiting other sites.

The company says it sells advertisers a demographic sketch of the people its ads reach but doesn't attach names. Instead, Facebook aggregates the responses of everyone who sees a given ad, says Brian Boland, the company's vice president for advertising technology. "It's business critical that marketers and advertisers understand the effectiveness of their digital advertising," says Boland. "It's no longer a question of advertisers feeling like they want to solve this. Now they need to."

Atlas is an ad network, like Google's AdSense, that Facebook bought from Microsoft in 2013 and relaunched late last year. Its advantage lies in the depth of Facebook's knowledge of its consumers. Even though advertisers don't know the identity of specific users, the demographic information Facebook gives them, broken down by characteristics such as age and gender, can help them tailor ad campaigns for different audiences, says Jonathan Nelson, chief executive officer of **Omnicom Digital**, an early adopter of Atlas. "If you can connect the dots backwards, you can understand, 'How did that happen?' " Nelson says. "That's a gold mine."

The Atlas network can also track Facebook users' behavior on other websites, says Brad Smallwood, vice president for marketing science. Retailers can embed special Atlas code into their websites or apps that detect whether a customer buying a blouse she saw on her mobile browser viewed a related ad on Facebook.

Insurer **MetLife** became a client in February, using Atlas to track interest in ads for its identity-theft protection service. Melissa Grady, MetLife's vice president for digital acquisition and measurement, says Atlas has helped show the company how to "get the right message to the right person," by tweaking the campaign, for example, to focus on protections against cyberbullying.

Atlas is an important test for Facebook, which gets more than 90 percent of its revenue from ads, as it tries to boost its appeal to mobile advertisers and compete with Google. The search giant commanded 37 percent of U.S. mobile ad revenue in 2014, more than double Facebook's share, and has also begun tracking people across devices by using login data. Facebook's ads, however, are more tailored to individual users based on what it knows about them. Google declined to comment.

$29b

Forecast for U.S. ad spending on mobile devices in 2015

For Facebook, the biggest challenge may be persuading clients that they need to invest in tailored mobile ad campaigns—and to spend more to refine them based on the data Atlas returns. Some companies remain skeptical that customers respond better to personalized ads on their smartphones than the one-size-fits-all TV campaigns of the past, says Facebook's Boland. "Consumer behavior has shifted," he says. "They have to catch up."

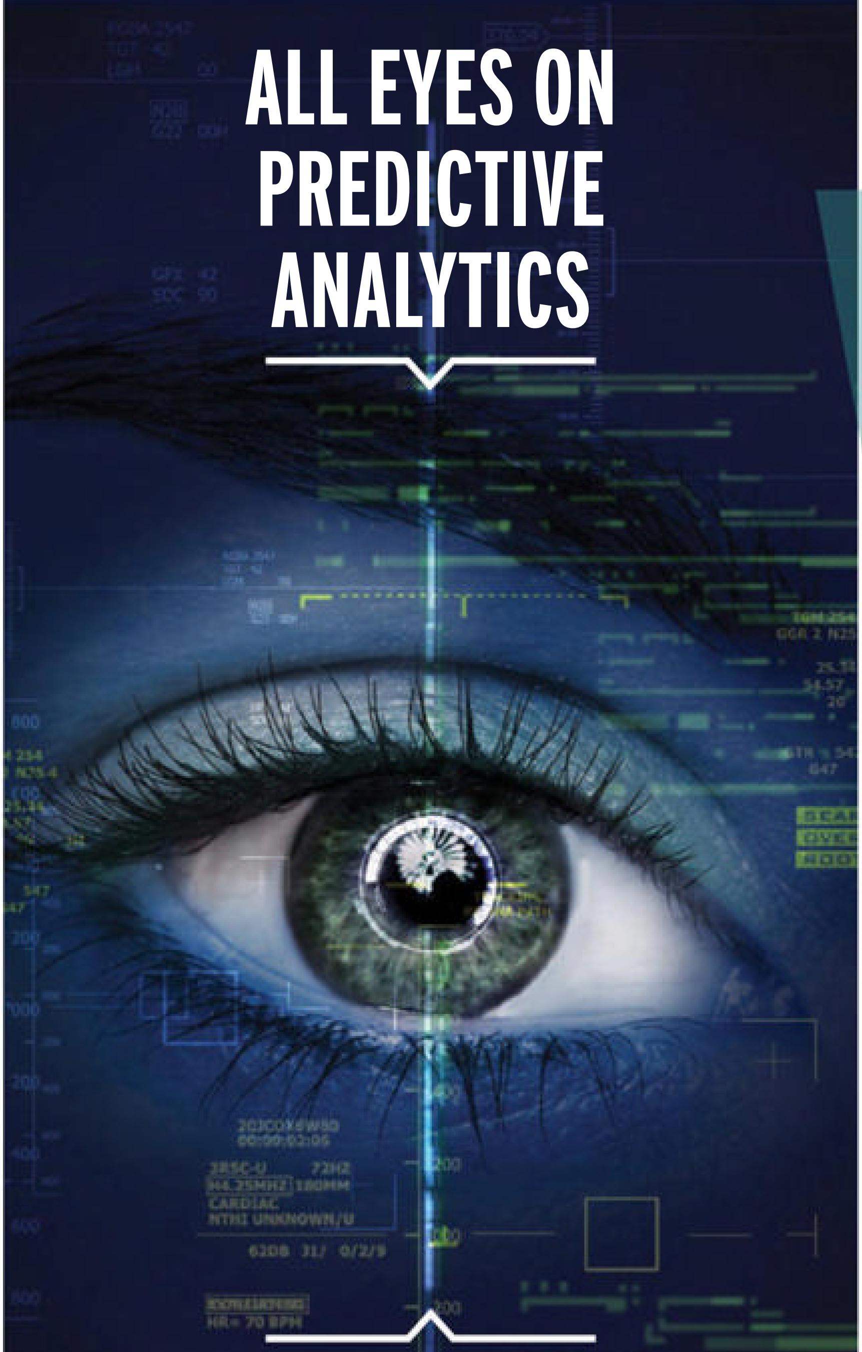
—*Alex Barinka*

The bottom line Facebook tracks its 1.4 billion users on mobile devices and helps advertisers target their ads.

Edited by Cristina Lindblad and Jeff Muskus
Bloomberg.com

ILLUSTRATION BY 731

ALL EYES ON PREDICTIVE ANALYTICS



WITH THE HELP OF THE RIGHT DATA, HEALTHCARE IT PROFESSIONALS TURN INSIGHT INTO TARGETED ACTION

HiMSS

When a middle-aged man walks into an emergency room and complains of chest pains, doctors are faced with a number of challenges. Primarily, they must quickly rule out or identify possible causes, which range from angina to pulmonary embolism and aortic dissection. And this happens often: Chest pain accounted for about 5.5 million of the 136.3 million emergency room visits in the United States last year—the second-leading reason for visits to the ER, according to the Centers for Disease Control and Prevention.

The reality of an unexpected emergency room visit will always be fraught with tension, but if a medical facility offers swift access to patient records and care guidelines, the doctor's diagnosis—and the entire process—can be streamlined. With the proper systems in place, any physician can access a patient's complete medical history, check for possible drug reactions, compare vital signs—and possibly save a life.

Today, access to a wide net of data is transforming the modern healthcare industry. Armed with more information than ever, doctors and hospitals are benefiting from the power of predictive analytics. Not only can physicians electronically access patient histories and treatment regimens to help with diagnosis and treatment, they can also use this information to provide more educated and accurate prognoses.

"The opportunity to integrate the data coming out of the electronic health record into healthcare delivery is very exciting," says Allen Kamer, Chief Commercial Officer, Analytics, for Optum. Optum is a leading health services and innovation company dedicated to helping make the system work better for everyone. "There is so much transformation in the healthcare industry that the demand is becoming nearly unquenchable for new analytics, technologies and integrated capabilities."

Optum focuses on analytics and technology to improve population health

PAPER BOAT CREATIVE/GETTY IMAGES

management and care delivery. One way Optum does so is by providing hospitals and physicians with software, information products, advisory consulting services and business process outsourcing to reduce costs, meet compliance mandates (like the impending ICD-10 deadline), improve patient outcomes, manage workflow and adapt to the changing health-system landscape.

Today, four out of five hospitals, as well as 67,000 pharmacies, use Optum products in an effort to combine their own expertise with advanced analytics to deliver better patient care.

THE NEXT PHASE OF INFORMATION TECHNOLOGY

Predictive analytics aren't new to healthcare, of course, but the growing scope, comprehensiveness and quality of available data have increased their predictive power significantly. With larger sample sizes, the level of a model's uncertainty and degree of bias decreases, which helps in identifying likely outcomes. In fact, doctors can even account for demographics, geographic trends and more. For that reason, predictive analytics' true power lies in taking health information and transforming it into health intelligence.

"The key is, once you predict it, can you actually do something about it?" asks Kamer. If a healthcare provider can't use the information to avoid a hospital admission or prevent disease, the information isn't all that valuable; it might help give insight, but the goal of analytics is to provide actionable information. "Those progressive organizations that have invested in analytics, and understanding patient population health, are continuing along their journey toward better managing an at-risk population," he says.

As the healthcare industry moves toward value-based reimbursement, providers need better tools to manage population health and their exposure to financial risk. The ability to prevent unnecessary hospitalizations can be a potent weapon in cutting costs, and doing this well means proactively identifying the highest-risk patients and prioritizing them for targeted intervention. Today's models can actually predict hospital admissions for a range of conditions, such as congestive heart failure (CHF), diabetes (DM), chronic obstructive pulmonary disorder (COPD) and asthma—and they can do so with considerable accuracy.

Optum's approach, in particular, relies heavily on clinical data, which includes lab results and electronic medical records, to better determine risk levels. And that means the accuracy of the company's predictive analytics will continue to improve as more data is collected.

Consider Wisconsin-based Aurora Health Care, a 15-hospital integrated provider serving Wisconsin and Northern Illinois. The provider integrated Optum One—a population analytics platform—and leveraged predictive models for heart failure and COPD in risk stratifying their population. "They've put together a comprehensive, cross-sectional program that consists of nurses, health coaches, care coordinators and doctors, and designed a program that they could modify and adapt," Kamer explains, and the results have been impressive. Heart failure admissions have decreased by 60 percent compared to the previous year, COPD admissions have dropped 20 percent after five months and all-cause readmissions have decreased by 20 percent.[1]

Sentara Medical Group, a network of 380 primary- and specialty-care physicians in Virginia and North Carolina, also relies on Optum One's predictive analytics to pinpoint high-risk patients and deliver targeted medical care. Whereas one practice previously characterized a single patient as high-risk, data analysis identified an additional 43 as such, and more than 50 percent of these patients ultimately engaged in a special care program.

These examples are only the start of what predictive analytics will do for the industry, and illustrate just part of the impact IT can make in the world of healthcare. As Optum and other companies continue to make advancements, doctors and workflow will become even smarter and more efficient.

For that reason, Optum is happy to share its expanding IT knowledge whenever

[1] *Case study presented by Aurora Health Care at the US News & World Report 2014 Hospital of Tomorrow Conference*

"THOSE PROGRESSIVE ORGANIZATIONS THAT HAVE INVESTED IN ANALYTICS, AND UNDERSTANDING PATIENT POPULATION HEALTH, ARE CONTINUING ALONG THEIR JOURNEY TOWARD BETTER MANAGING AN AT-RISK POPULATION."

possible, and its most recent opportunity came at the 15th Annual HIMSS Conference & Exhibition in Chicago. The Optum booth featured a variety of interactive demonstrations and exhibits spotlighting new products and capabilities. Visitors learned about the company's Revenue Cycle Management services and technologies, including Optum360; Optum Computer-Assisted Coding—winner of a 2014 KLAS Category Leader award; the Optum One population health analytics tool; and their clinical documentation platform.

A FORUM FOR IT THOUGHT LEADERSHIP

More than 50,000 individual members and 570 corporate members are proud to call themselves a part of the Healthcare Information and Management Systems Society. From April 12–16, over 38,000 of these healthcare professionals from around the world traveled to Chicago to attend the 15th Annual HIMSS Conference & Exhibition, the largest healthcare IT conference in the country in North America's largest convention center, where some 1,300 companies featured the best new emerging technologies.

For Steve Lieber, President and CEO of HIMSS, a globally focused nonprofit organization centered on better health outcomes through information technology, the importance of the industry banding together is obvious. "The research is very clear and without equivocation," he explains. "The higher the level of IT adoption, the more likely that mortality and medical errors are reduced and patient satisfaction goes up."

As the value-based payment model continues to grow, healthcare providers find that they still need to operate fee-for-service as well as fee-for-value models. For that reason, companies that are uniquely capable of helping providers succeed in both of these delivery methods were on hand to show attendees how they can better manage data and infrastructure in ways that free providers to focus on what's most important: healthier patients.

The offerings at HIMSS15 ran the gamut, including workshops that examined the federal health IT market and an Innovation Symposium that explored the innovation life cycle of emerging technologies, following them from ideation to prototyping and, ultimately, all the way to market introduction. And, like any other facet of the IT sector, a firm eye was also set on security, as the HIMSS Cybersecurity Command Center mined the wisdom of industry and government experts to discuss the challenging—and ever-changing—cyber threat landscape.

Current and potential customers in attendance also learned about the latest innovations in social collaboration, which offers the means for patients and providers to share information securely, in what is evolving into a two-way delivery system. "A truly engaged consumer is still somewhat elusive," says Lieber, who points out that patient engagement was an overarching conference theme for the week.

Although the complete picture of healthcare in the future is impossible to predict—even with the exciting power of analytics—the direction it is heading is clear. "We will become more automated, more electronic and able to catalog information so much better," Lieber explains. "Physicians are going to get smarter because they'll be able to retrieve relevant information far more quickly and far more accurately." For that reason, investing in current and future healthcare IT leads directly to better health outcomes.

— *Lisa Freedman*

The Trader In the Wild

Near Mt. Elbrus base camp,
August 2012

Kate Matrosova was a classic overachiever and, at 32, had everything to live for. Still she set out alone into the mountains of New Hampshire—and a deadly storm.

By Chip Brown

On the best of days, it would have been an epic hike—a 16-mile, dawn-to-dusk solo traverse across New Hampshire's highest peaks. On the worst, it was something still difficult to fathom: another heartbreaking entry in the ledger of a range whose cordial slopes and modest elevations belie its savage weather.

The White Mountains forecast for Feb. 15, 2015, called for a high of -20F. Shifting winds from the north starting at 45 to 60 mph and rising midmorning to 80 to 100 mph, with gusts up to 125 mph. Wind chills as low as -75F. But once Kate Matrosova set a goal, she wasn't easily deterred. At 32, she had boundless energy and a brilliant mind; she spoke three languages and built a stellar career in finance and banking largely on her talent for analyzing risk. She was fit and strong and confident in her ability to move fast. In New York she had been training every day by running up 42 flights of stairs with a pack containing a 20-pound barbell and two 20-pound sacks of kitty litter. When she lived in Florida, she'd won judo matches against male opponents who outweighed her by almost 100 pounds, and was on the brink of a black belt. She was also, perhaps, willful to a fault: Locked in a chokehold, she would as soon pass out as tap the mat to signal she'd had enough.

Her passion for mountains and wild places was kindled four years ago on an ascent of Mt. Kilimanjaro. In 2012 she'd climbed Mt. Elbrus, the 18,510-foot high point of Europe. A year later she took an International Mountain Guides course on Mt. Rainier and learned crampon techniques and how to build snow caves and snow anchors. Last year she scaled 20,321-ft. Denali in Alaska and 22,841-ft. Aconcagua in Argentina, the apexes of North and South America. She set her sights on Everest and the rest of the Seven Summits, the high points of each continent; she aspired to be the first woman to climb Denali in the winter. ➜

Matrosova's new avocation would require considerable investments of money and time—savings to pay for expeditions and months not only to train but to travel to far places, acclimatize, wait out bad weather, and endure the sundry hardships all alpinists endure in pursuit of some transcendent happiness. In the meantime, each morning she climbed into a business suit and hiked through the din and fumes of Midtown Manhattan to the Equitable Tower off Seventh Avenue, where she worked as a credit derivatives trader in the North American headquarters of BNP Paribas, the world's fourth-largest bank. It was rewarding work, but she also saw the job as a means to an end. At one time she had an illustration of the Seven Summits above her desk and a picture of her climb on Aconcagua as a screen saver on her laptop.

This past Valentine's Day, Matrosova and her husband, Charlie Farhoodi, escaped Manhattan for a room at the Royalty Inn in Gorham, N.H. At 5 a.m. the next morning, Sunday, Feb. 15, Farhoodi pulled their rental car into a parking lot off Route 2 where the well-

Graduating with a master's from Berkeley, March 2014

traveled Valley Way Trail begins. It seemed fitting to Matrosova that on Presidents Day weekend she should not only be training for Everest but celebrating her impending American citizenship with the so-called Presidential Traverse across the summits of Mt. Madison, Mt. Adams, Mt. Jefferson, and Mt. Washington.

A month earlier she and Farhoodi had hiked up the same trail. They climbed Madison and camped overnight near the boarded-up Madison Spring Hut. The weather was fine by Mt. Washington standards: 12F on the summit with winds averaging 54 miles per hour. The next day Matrosova wanted to tackle Adams, about an hour's hike and more than 400 feet higher than Madison, but Farhoodi was ready to go down. They'd been sweating in insulated down suits and laboring under a load of gear packed for every contingency. Whenever she coaxed Charlie into doing something, she was always careful to look after him. They turned back.

On other occasions, she'd helped him accomplish more than he expected to. Despite his fear of heights, she'd gotten him to go sky-diving. On Kilimanjaro, when everyone else was using porters, she convinced him that they should carry their own equipment because it would be more of a challenge. It was characteristic of her that she'd also learned a lot of Swahili before that trip to Africa, and had brought a suitcase of toys and games for a Maasai school. There was nothing hedged or ungenerous about Kate. She caught people up in her enthusiasms.

"It was a wonderful thing to be pulled along in her wake," Farhoodi says.

Now in the predawn dark of a February morning, she was setting out again, this time alone; they had discussed Farhoodi going with her but both knew he would only slow her down. She was carrying food and water. Even without her down suit she was well equipped for a frigid trek above the tree line: a good winter jacket, insulated pants, a balaclava, goggles, gaiters, crampons, poles, the La Sportiva Spantik double boots she had gotten on Rainier. She had her camera. They'd been unable to find a place to buy a selfie-stick, but Farhoodi had rigged one with some tape and a coat hanger. She had a satellite phone and a GPS device that would record her movements. And she had a gizmo Farhoodi had bought and insisted she take even though she couldn't imagine using it and thought it was a waste of money—an ACR ResQLink personal locator beacon (PLB), which Farhoodi had registered with the federal authorities that monitor all personal locator beacons in the U.S.

On a handwritten itinerary, Matrosova had detailed times that reflected her confidence that she could move rapidly. Intending to summit Madison by 8 a.m., she'd budgeted only three hours to cover the four miles and 4,000 feet between the trailhead and the top. She anticipated making the summit of Adams by 9 a.m.; Jefferson by 11 a.m.; Mt. Clay by 1 p.m.; and by 3 p.m., Washington, the 6,288-foot crest of the range. That would leave her just shy of three hours of daylight to descend the Ammonoosuc Ravine Trail, which ends at the base station of the Mt. Washington cog railway. She'd shown Farhoodi the bailout routes she could take if she fell behind schedule.

Atop Russia's Mt. Elbrus, August 2012

They said goodbye. Matrosova switched on her headlamp and walked into the woods. Farhoodi had been planning to go skiing, but he found himself lingering in the parking lot, unable to drive away. Many times he'd watched his wife head out on some adventure. She was fearless; he loved her for that—from the beginning, he'd loved her for all the ways she wasn't like him. And she had always come back.

The spirit of adventure and zest for life that sent Ekaterina Matrosova up the Valley Way Trail into what would become in a matter of hours some of the most hellish weather seen in many winters on Mt. Washington, was the same impetus that propelled her to

"It was a wonderful thing to be pulled along in her wake"

America, on her own, with little more than a suitcase.

The elder of two sisters, she grew up in a poor family in the midsize industrial city of Omsk in western Siberia. After the Soviet Union broke up, her parents opened a shop importing shoes from Moscow. Her father had been in the Red Army and had won medals for service at Chernobyl. At 12, Matrosova was saving money from a lemonade stand to pay for school supplies. She studied finance at the Omsk State Transport University, and in 2002, at 20, got a work-study visa to the U.S. She'd arranged a job at a restaurant in Montauk, N.Y., at the eastern tip of Long Island, where she fell in with Lily Kirejenkova, a Lithuanian work-study visitor. Later that summer they moved to Chicago together and found jobs in a nightclub. One rainy night at 2 a.m., when they were crowded into a one-bedroom apartment with four other people and it was too hot to sleep, Matrosova said, "Come on, let's go dance in the rain!"

"She said it would be fun, and it was," Kirejenkova recalls. "We danced in the rain in our pajamas and jumped in puddles like 5-year-olds. Kate was able to convince people to do things. She always gave all of herself to whatever she was doing. And she always knew what she wanted, she always had a goal in mind."

After hiring a lawyer to extend her visa, she saved money working as a waitress and hostess. She took courses at a Chicago community college and then enrolled at DePaul University. She studied finance, marketing, and accounting and graduated magna cum laude in 2006. With her new degree, she landed a job at J.P. Morgan and went to New York for a six-week training program, where she met Farhoodi, a witty, prudent private wealth manager. They were both 24. They were billeted in corporate housing and in the evenings went out in big groups to bars along Bleecker Street. Kate, who was studying for her security industry Series 7 exam, asked Charlie if he wanted to study with her.

"She'd study and I'd stare at her, trying to make her laugh," he says.

She was always taking pictures of what they did together, places they went, dinners they had, the speedboat trip they took down the Hudson past the Statue of Liberty. One late night toward the end of summer when they'd been talking for hours, they sat down on a stoop in Chelsea and somehow managed to fall asleep only to wake and find his wallet and her purse and camera had been stolen. "Oh no, they're gone!" Matrosova cried. Farhoodi tried to console her–they could replace the wallets and the cell phone. "No," she cried, "they're gone. Our pictures are gone!" The pictures, not the purse or the phone, were what mattered to her. As he would explain to the mourners listening to his eulogy nine years later, that was the moment he fell in love with his wife.

In 2008 she moved into his apartment in West Palm Beach, Fla. They were married a year later. Matrosova's job helping manage the billion-dollar portfolio of S. Daniel Abraham, founder of Slim-Fast weight-loss products, left her time for long lunches. She resumed her kodokan judo practice. As part of her training she would bike 26 miles, round-trip, to the dojo in Hypoluxo.

"She was my ringer," recalled her sensei, Hector Vega. "I would tell the tough guys, 'Go defeat that girl,' and Kate would thrash them. Once you met her, you would never forget her. Her endurance was incredible. She was really well conditioned. In the dojo now we say, 'Let's train like Kate.' She would never surrender in a match. She never went halfway at anything. We used to talk about things in life as a judo match, how you have to prepare for possibilities."

In 2012, restless for more stimulating work, Matrosova applied to the master's program in financial engineering at the University of California at Berkeley's Haas School of Business. She was accepted as one of 68 students. Before the program began, she had to take courses in stochastic calculus, statistics, and the C++ programming language. She also had to read some heavy texts, including the quant bible, *Options, Futures, and Other Derivatives*, by John Hull.

A visit with the Maasai in Tanzania, August 2011

One of the first projects she worked on was writing derivative-pricing programs for GF Securities, a Chinese investment bank. Her teammate, Li Sun, who now works for Morgan Stanley, had been a Ph.D. physicist at Princeton with a thesis that made *Options, Futures, and Other Derivatives* seem as bubbly as chick lit: "Multidisciplinary Assessments of the Structure and Function of Co-enzyme B12-Dependent Enzyme Ethanolamine Ammonia-lyase."

"She was an adventurer, but I don't think she was a risk-seeker," says Li. "She wanted to know different things, achieve different things, get to different places. It wasn't about risk. It was about achievement."

Matrosova helped Li write a program for an options-pricing application that's still available on Apple's App Store. She and some other classmates started a consulting company called Blue Mountain. In March 2014, she was part of the six-member Berkeley team that took third place (and first among Americans) in the prestigious Rotman International Trading Competition in Toronto.

"I'm afraid I'll never find a student like her again," says Linda Kreitzman, executive director of the program. "She had a prolific mind, and it wasn't just for →

finance. It's the immigrant story. You have to work so hard. She was born determined, and there was no hidden agenda. You see that quality in children. You loved her? Guess what, she loved you back. I know people say, 'There she was quantifying risk in her profession. Why didn't she quantify the risk in the mountains?' But she is the only person I know who could try to do what she did. And I know she is not a person who would ever say, 'Let me defy death.' "

Sometime in the midmorning of Feb. 15, when she'd expected to be near the summit of Jefferson, she took a picture of herself at the Madison Spring Hut. She had pushed her goggles up and was smiling.

It's the last picture in her camera.

What had delayed her? She was far behind schedule. Had she post-holed into soft snow and wrenched an ankle? Slipped on rocks and injured her knee? Had she lingered, weighing the risks heralded on the yellow U.S. Forest Service sign where the Valley Way Trail breaks

Prior to her ascent of Mt. Kilimanjaro, August 2011

out of the trees and onto the upper unsheltered reaches of the range? "STOP," that sign cries. "The area ahead has the worst weather in America. Many have died there of exposure even in the summer. Turn back now if the weather is bad."

"It wasn't a bad day, but you could hear the wind beginning to build like a freight train bringing in the cold air," says Mike Pelchat, manager of Mt. Washington State Park and a member of the Androscoggin Valley Search and Rescue team that recovered Matrosova's body. "The front came in really quickly, sooner than forecast. One thing people often don't understand is that every 10 mile-per-hour gain in wind speed increases the force much more than 10 percent. When the winds are 80 or 90 or 100 miles an hour, you can't walk or stay on your feet; you're on your hands and knees waiting for a lull. You can't lift your goggles up, the wind blows your arms behind you. If the temperature is 20 below and a zipper breaks or you drop a glove, you can get into trouble

"She wasn't a silly girl playing at mountaineering"

quickly. Hypothermia sneaks up on you, and you start making poor choices."

By noon on Sunday, the temperature had dropped to -14F and winds had reached hurricane force, howling out of the north at 75 mph; by 1 p.m., 85 mph. The temperature was falling. By 3 p.m. it would be almost 21 below; by sunset, 30 below.

Back at the inn in Gorham, Farhoodi was growing increasingly concerned. He had no interest in the day of skiing he thought he might get in while his wife hiked. He checked the Mt. Washington webcam and signed up for the premium content views only to discover he couldn't access them immediately.

At 3:30 his cell phone rang. It was an operator calling from the Air Force Rescue Coordination Center at Tyndall Air Force Base near Panama City, Fla., where personal locator beacon signals are relayed. Matrosova had activated the device she had scoffed at. Farhoodi knew she must be in desperate straits. He called 911. The state police dispatcher contacted conservation officers from the New Hampshire Fish and Game Department, who began coordinating a rescue attempt. Sergeant Mark Ober got a description from Farhoodi of Matrosova's clothes, height, weight, level of fitness, and itinerary. He plugged the PLB data into mapping software on his laptop and called Rick Wilcox, an Everest summiter who for nearly 40 years has been president of the Mountain Rescue Service, a volunteer organization based in North Conway, N.H. By the light of headlamps, three conservation officers and a team of four organized by Wilcox set out in the dark aiming for a location well off the trail on the northwest side of Madison that had been indicated by a second signal from Matrosova's locator beacon. A second Mountain Rescue Service team followed later in the evening.

Having activated her beacon at 3:30 p.m., it's likely Matrosova didn't have long to live and wouldn't have been found alive even if the initial coordinates had been spot on. But the second ping was off the mark, perhaps affected by the angle of the antenna or the temperature, which had plunged well below the device's -4F limit. While all of the coordinates recorded were within a mile of the Madison Spring Hut, the first wave of searchers went hunting for Matrosova on the wrong side of Madison, bushwhacking into the early morning hours on what proved to be a wild goose chase in chest-deep snow with temperatures dropping toward -35F. They returned to the parking lot at 3 a.m. with icicles on their eyebrows. The search resumed later that Monday morning.

Other pings from the PLB had placed Matrosova on the northern side of Adams in King Ravine near the Gulf-

COURTESY CHARLIE FARHOODI (5)

side Trail she was planning to follow all the way to Washington. But a team that included Pelchat homed in on signals from the east that placed her in the col between Madison and Adams near the Star Lake Trail. The Star Lake Trail climbs along the eastern flank of a satellite peak, Mt. Quincy Adams, and then up to the summit of Adams. On the first pass they saw nothing. On the second, about 150 yards below the small frozen plain of Star Lake and some 150 feet off the Star Lake Trail, they found her. She was lying on her back, her leg caught in the stunted growth of balsam fir and spruce known as krummholz. Her pack, with the beacon inside, was about 15 feet down the hill. She was still wearing her gloves and goggles.

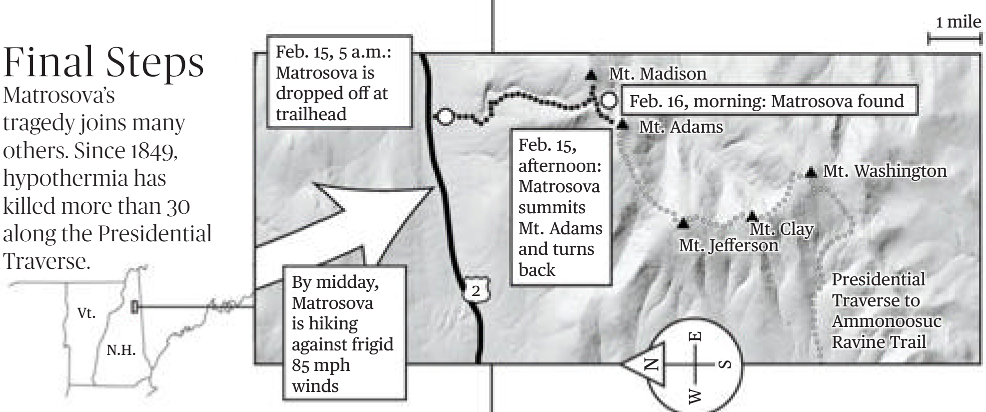
"It looked like a gust of wind had blown her off the trail and put her in that position," Pelchat says.

Lieutenant Wayne Saunders called Farhoodi with the news that his wife's body had been found. The cause of death: exposure.

The conservation officers examined the record of Matrosova's GPS coordinates and passed on to Farhoodi their conclusion that Matrosova had climbed Mt. Adams—the mountain she wanted to scale the month before but hadn't, yielding to Farhoodi's desire to descend. After getting to the top of Adams, she seemed to be heading home, retracing her steps—but with one grave difference. On the way in, she'd had the wind at her back. On the way out, she was struggling against torrents of gelid air moving at hurricane speed. It was not a contest she could win.

Final Steps

Matrosova's tragedy joins many others. Since 1849, hypothermia has killed more than 30 along the Presidential Traverse.



"I know she checked the weather, she had to have," says Olya Lapina, who recognized a kindred spirit when she met Matrosova at the Aconcagua base camp, in Argentina, in January 2014. "Maybe she didn't see the storm coming. You don't always know a storm is coming. I can't imagine she didn't check the weather. Maybe something happened. Maybe she fell and became unconscious. It's really important to understand what she stood for and who she was. She wasn't a silly girl playing at mountaineering. She was brave. There are people who push limits and boundaries. Kate had a power within her. Her climbing was leading up to what she would become. It was a way for her to understand and strengthen who she was. What happened to her is a tragedy and an accident."

Farhoodi returned to New York with all of Matrosova's mountain gear stashed in a garbage bag. A thousand little things pierced him. They had moved to the city only last fall, Farhoodi transferring to a job as a vice president in JPMorgan Chase's New York headquarters; Matrosova was an associate in the fixed-income investment-grade credit trading group at BNP Paribas. Farhoodi gave away the tickets to the performance of *Carmen* they were supposed to see a week after her body was recovered. A letter arrived scheduling her citizenship exam for April 13 at 9:30 a.m. So much for that. For their cat, Carrot, he put out the kitty litter Matrosova had carried up staircases as part of her training regimen. He tried not to read accounts of her death, especially the cretinous comments calling her an arrogant blonde banker who deserved the Darwin Award for removing herself from the gene pool.

A month after her death, he organized a memorial service. His parents came from Dallas. Lapina, who last fall had climbed Manaslu, her first 8,000-meter peak, flew in from San Francisco; Vega came up from the dojo in Florida, and Kirejenkova from Chicago—Kirejenkova, the Russian speaker who had called Matrosova's parents in Omsk with the crushing news.

More than a hundred people crowded into a room at the Harvard Club. Near the end of the service, when it was Farhoodi's turn to speak, he told the story of his first night with Kate, when she invited him to her apartment for a sandwich at 2 a.m. and then, in typical fashion, suddenly asked whether he wanted to go rollerblading. "In general, or right now?" he had replied. Right now, of course. And then she was skating down the hall. "Her eyes were never bluer than when she was in the mountains," he said with a catch in his throat. He was still lost for what to do with her ashes, musing only half-fancifully that perhaps he could find a way to scatter them on Everest.

His thoughts kept circling back to that last glimpse of her when he was in the car at the trailhead and she was stepping up a snowbank and into the defile of the Valley Way. "Every time I said goodbye to her, even if she was just going out on her bike with her headphones on, I would wonder if I would ever see her again, just because of who she was."

He was not given to premonitions, and yet he'd lingered in the lot. Why? He thought perhaps she might turn around right away. It was hard not to wonder what he might have done or could have done or should have done. Could he have run after her, pulled her back from the adventure she was determined to have? Saved her from herself? So easy in retrospect to say, God yes. But who would she be—who would either of them be—if he kept her from being who she was? He watched her headlamp dip and flash in the darkness like an out-of-season firefly. He watched until the light was gone. B

DATA: U.S. GEOLOGICAL SURVEY, EVERYTRAIL, MOUNT WASHINGTON OBSERVATORY

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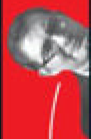


Fabio Frazzetto,
indicted October 2011

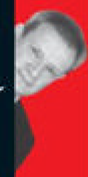
Emanuel Agustoni,
indicted February 2011

Edgar Paltzer,
indicted April 2013

PALTZER: BRENDAN MCDERMID/REUTERS

AINT

At least 21 financial advisers in Switzerland charged with aiding American tax dodgers are at large. They're not that hard to find



Felix Mathis, indicted July 2010

By Jesse Drucker

With its tan marble floors and leather-clad reception desk, the staid Zurich offices of the Julius Baer Group, one of Switzerland's largest private banks, are an unlikely place to find an alleged fugitive from American justice. And yet it's here that I meet Fabio Frazzetto. Almost four years ago a federal grand jury in Manhattan indicted Frazzetto, a longtime client adviser for the bank, charging him with conspiring to help dozens of wealthy Americans conceal hundreds of millions of dollars from the Internal Revenue Service by using undeclared accounts, code names, and foreign relatives.

When I pay an unannounced visit to Julius Baer in February, it takes only a few minutes before Frazzetto comes out and greets me, wearing a well-tailored pinstripe suit. He is polite but declines to speak at length. His legal status is "certainly uncomfortable," he says, and he can't leave Switzerland without risking arrest. His office has become something of a gilded cage. "I have a very pleasant employer," he vaguely explains. "That's what I always say." (Julius Baer declined to comment on Frazzetto's indictment.)

For decades, Switzerland has occupied an outsize role in the world of shady international finance. The country's strict secrecy laws have made it the offshore banking destination of choice for U.S. tax evaders, Russian oligarchs, Nigerian kleptocrats, and Brazilian money launderers. According to research by Gabriel Zucman, an assistant professor at the London School of Economics, Swiss banks still hold at least $2 trillion that customers haven't declared to tax authorities in their home countries. "You're not a self-respecting Swiss bank if you don't have some dodgy money floating around your system," says Martin Kenney, an attorney in the British Virgin Islands who specializes in international fraud.

Since 2008 the U.S. Department of Justice and the IRS have been waging an uneasy war against Swiss banks that enable tax evasion. UBS Group and Credit Suisse Group have paid a combined $3.4 billion in U.S. fines, penalties, and restitution. Wegelin, the country's oldest bank, closed its doors entirely in 2013 after pleading guilty to conspiracy to evade taxes. In a break from longstanding policy, the government of Switzerland has pledged in recent years to share bank information with tax authorities around the world. But it gets to choose the countries with which it will exchange that data—sort of the financial equivalent of the dating site Tinder, says Andres Knobel, an attorney at the Tax Justice Network, a nonprofit. "There is no way to guarantee they will exchange information," he says.

Some of the biggest Swiss banks, such as Credit Suisse, have turned over few names of customers with undeclared accounts. And they're equally reluctant to take action against their employees. Credit Suisse—which in 2014 pleaded guilty to conspiracy to help Americans file false tax returns and agreed to pay the U.S. and New York state $2.6 billion—kept three indicted bankers

on its payroll for almost three years after they were charged, despite their failure to respond in court. That ended last May when the New York State Department of Financial Services required the three bankers' employment be terminated as part of a settlement.

Swiss authorities, however, have refused to hand over any bankers—and the U.S. hasn't asked for them. At least 21 financial advisers in Switzerland under U.S. indictment remain at large, making them fugitives in the eyes of the American government. Their acts aren't considered crimes under Swiss law, so the country won't extradite or prosecute them. Several still work in the Swiss financial industry, offering tax advice and other services. Some still have U.S. clients.

The only Swiss adviser to receive a significant U.S. prison sentence? Bradley Birkenfeld, the former UBS banker who first revealed the widespread practice of Swiss banks setting up undeclared offshore accounts for wealthy Americans. None of the other Swiss bankers and lawyers who pleaded guilty have been sentenced to prison time.

I recently traveled around Switzerland, following the trail of indicted advisers and their colleagues. Some expect to spend the rest of their lives in the country, fearing arrest if they leave. Many complain that their superiors got off while they're stuck in a state of Roman Polanski-type legal limbo. Still others hide behind locked doors.

At least four I talked to have decided to face the music: pleading guilty in the U.S. and cooperating with prosecutors. What persists is an indignation about being targeted for just following orders—and a sense that, despite their indictments, the Swiss banking system remains dirty.

FIFTY THOUSAND

Americans have admitted they illegally dodged billions in taxes with the aid of Swiss banks

The drab suburb of Dietikon is a 15-minute train ride from Zurich. Across from the station sits a utilitarian cement building with a COOP supermarket on the ground floor. Emanuel Agustoni, a former Credit Suisse banker indicted in 2011, runs a tiny investment advisory firm on the third floor. Behind his desk, the wall is lined with clocks with the times in New York, Singapore, London, and other financial capitals. A flatscreen TV mounted above an espresso machine is tuned to Bloomberg Television.

When I show up, Agustoni is happy to discuss his case and talks for more than two hours. U.S. prosecutors say he helped American clients set up secret accounts while he was working for Credit Suisse. They allege he later helped them move their money to other, smaller Swiss banks to avoid detection by the Department of Justice. A round man with thick, graying hair, the 54-year-old Agustoni sits on a black faux-leather couch. His black shoes are fading. He complains that he's a scapegoat, noting that few at the bank's upper reaches have had legal trouble. He chuckles over how outgoing Credit Suisse Chief Executive Officer Brady Dougan blamed the bad behavior on "a small group" of bankers.

"Of course they knew," Agustoni says of top executives. "It wasn't just the U.S., it was all markets—South America, Asia." Blaming the banks' conduct on a handful of employees is "a cheap excuse. It's a lot of money." The bank declined to comment on that contention. (For the record, Credit Suisse is paying Agustoni's legal bills—$1.5 million so far.) He says he had a "don't ask, don't tell" policy with clients. "I never asked, 'Do you pay taxes or not?'" he says. Pressed further, he acknowledges he "could guess" those clients weren't reporting the income on their tax returns. He worries he can't defend himself in the U.S. without violating Swiss bank secrecy laws. "I didn't do anything wrong," he says.

Agustoni's former Credit Suisse boss, Markus Walder, who ran the company's North American offshore banking business, approved his actions, he says. Walder, charged in the same indictment as Agustoni, also hasn't responded in court. He's an independent business consultant in Zurich, according to his LinkedIn page. He declined to comment.

Since he was indicted, Agustoni has lost most of his business, he says, and is down to nine customers. He used to earn about 300,000 Swiss francs a year; now his annual income is about 65,000 Swiss francs—roughly $66,000. He drives a 2006 Citroën and says he lives in a small apartment. He's tried, and failed, to get the Swiss government to intervene on his behalf. Now he feels left out in the cold. The biggest Swiss banks have cut deals with the U.S., saved their top executives from prosecution, and "I am still on my own."

Hans Thomann, a former UBS client adviser, was indicted in 2012. The U.S. alleges Thomann, 65, conspired with UBS and Wegelin to hide bank accounts for wealthy Americans, transporting bundles of cash—as much as $140,000 at a time. "We were never told you can't do this, you can't do that," says Thomann of his former bosses at UBS. "I was not a tax expert." (UBS declined to comment on Thomann's case.)

Thomann says he can't afford a lawyer, and UBS won't pay his bills. "The indictment has ruined my life," he says in a thick Swiss-German accent. "I lost my job, my reputation, and my health." Ruddy-faced, with a shock of gray hair, he's recovering from multiple hip operations. He takes eight medications a day and says he's losing his memory. He lives on a pension of about 40,000 Swiss francs a year—down from about 150,000 a year in earnings when he was an adviser.

Like Agustoni, Thomann insists he's a tiny part of a larger system. The only top UBS executive to face criminal charges was Raoul Weil, whom a Florida jury acquitted after barely an hour of deliberations late last year. (Weil was a fugitive for almost five years before his arrest in Bologna, Italy, in 2013.)

Asked about the numerous occasions on which he handled bundles of cash, Thomann's explanation grows cloudy. He starts talking about friends owning restaurants and dry cleaners with access to lots of cash. He "just wanted to help" his clients, he says. But what possible reason was there to transport bundles of cash? He eventually concedes: "This was a mistake I made."

Edgar Paltzer was once one of Switzerland's best-known lawyers, receiving the top ranking in legal magazines for helping rich clients minimize taxes when transferring wealth to their heirs. What was not as well known was that Paltzer was helping U.S. citizens stash money in undeclared Swiss accounts, allegedly using a web of corporations in Panama and foundations in Liechtenstein to disguise their ownership and illegally dodge U.S. taxes.

In early 2009, UBS announced a $780 million deferred prosecution agreement with the U.S., and numerous Swiss banks began kicking out American customers holding undeclared funds,

fearing the wrath of U.S. law enforcement. Paltzer saw a business opportunity. He encouraged these clients to move their accounts to Bank Frey, founded by one of his law partners. Paltzer's alleged accomplice handling this stream of customers was a young banker named Stefan Buck.

In April 2013 a U.S. grand jury indicted both men. Born and raised in Switzerland, Paltzer also holds U.S. citizenship. That eliminated the fugitive option, because Switzerland would be more likely to extradite him. Paltzer, also accused of years of other misdeeds, pleaded guilty to conspiracy to commit tax fraud and agreed to cooperate with prosecutors. He was released in New York after he signed a $2 million bond in August of that year. He put up a $500,000 19th century French painting, *La Gardeuse de Chèvres* (*The Goat Herder*), by Charles-François Daubigny, to secure his bail.

Paltzer, 58, still has a law practice, with an office on a prime stretch of Zurich's main shopping drag, the Bahnhofstrasse, across the street from UBS and Credit Suisse. He still specializes in inheritance law and uses Liechtenstein foundations. But he says he's been flattened. "What's your reaction when a tsunami hits you?" he asks. "It's simply a catastrophic period." Leaning over a meeting table complete with a vase of white, pink, and purple tulips, he wears gold-rim glasses and elegant, albeit slightly worn, attire: a slate-gray suit, a pink Hermès tie, and gold cuff links. His gray hair is thinning. As we talk, he often stares ruefully out the window at the top of nearby Fraumünster

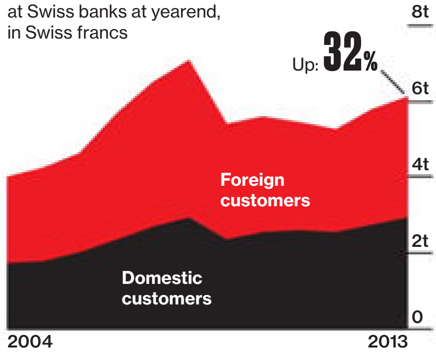
Estimated value of cash and securities held by Swiss banks that customers haven't declared to authorities in their home countries

TWO TRILLION


Markus Walder, indicted July 2011

Stashing More With the Swiss

Assets under management at Swiss banks at yearend, in Swiss francs



DATA: SWISS BANKERS ASSOCIATION

Church, rubbing his long fingers together.

Paltzer's key to his former law firm's offices was taken away the day after his indictment. He sold a vacation home and has lost 80 percent of his clients, including all the Americans. "Lawyers didn't want to come to my office for fear the office was wiretapped," he says. Accepting payment is difficult, because several banks refuse to transfer money to his account. "If the s--- hits the fan, you simply have to deal," he says with a joyless laugh. The date for his sentencing hasn't been set.

Buck, Paltzer's former collaborator, has refused to go to the U.S. to face the charges. He works for a number of ventures, including one seeking investors in uranium mines in Mongolia, and operates out of at least two offices: one in Zurich and another outside St. Moritz, the picturesque ski mountain resort popular with Russian oligarchs. A few months after his indictment, Buck says he spent several days meeting with federal prosecutors and IRS agents at the U.S. Embassy in Vienna. He says prosecutors offered him a deal: If he pleaded guilty, they would recommend no fine or prison time. "I'm definitely not going to plead guilty to something I didn't do," he says. He fears that going to the U.S. without an agreed-upon bail could mean months behind bars awaiting a trial. His lawyers recently proposed a $500,000 bail package. But U.S. prosecutors rejected the overture, refusing to negotiate with Buck as long as he stays outside the country, calling him a fugitive.

Buck, 34, claims to have documentation that would disprove U.S. allegations. But "the problem with Swiss banking secrecy is I don't know if I can use that documentation for a trial," he says. "It doesn't make sense if I clear my case in the U.S. and come home and have a second case in Switzerland."

Asked if he ever travels outside Switzerland, he says obliquely: "I shouldn't. I will definitely never enter a plane." He declines to discuss his current business but says the indictment makes it impossible to work in financial services. "I'm happy that I'm in my early 30s and not 50 or 60. I'm in a better situation than most others."

Zurich has come to resemble an oversize college dorm for indicted Swiss financial professionals. I unexpectedly found one confessed tax-dodge adviser in the offices of another who also pleaded guilty. Most are wary of outsiders. Their lives go on, but they're looking over their shoulders.

Josef Dörig, a Swiss financial adviser who last year pleaded guilty to helping U.S. clients of Credit Suisse to evade taxes, agreed to cooperate with the government. His firm's offices are in a high-rise office building in Zurich's center–three floors below those of Credit Suisse's trust company. That proximity "exemplified the symbiotic relationship between" the two businesses, according to a court filing agreed to by Dörig and U.S. prosecutors.

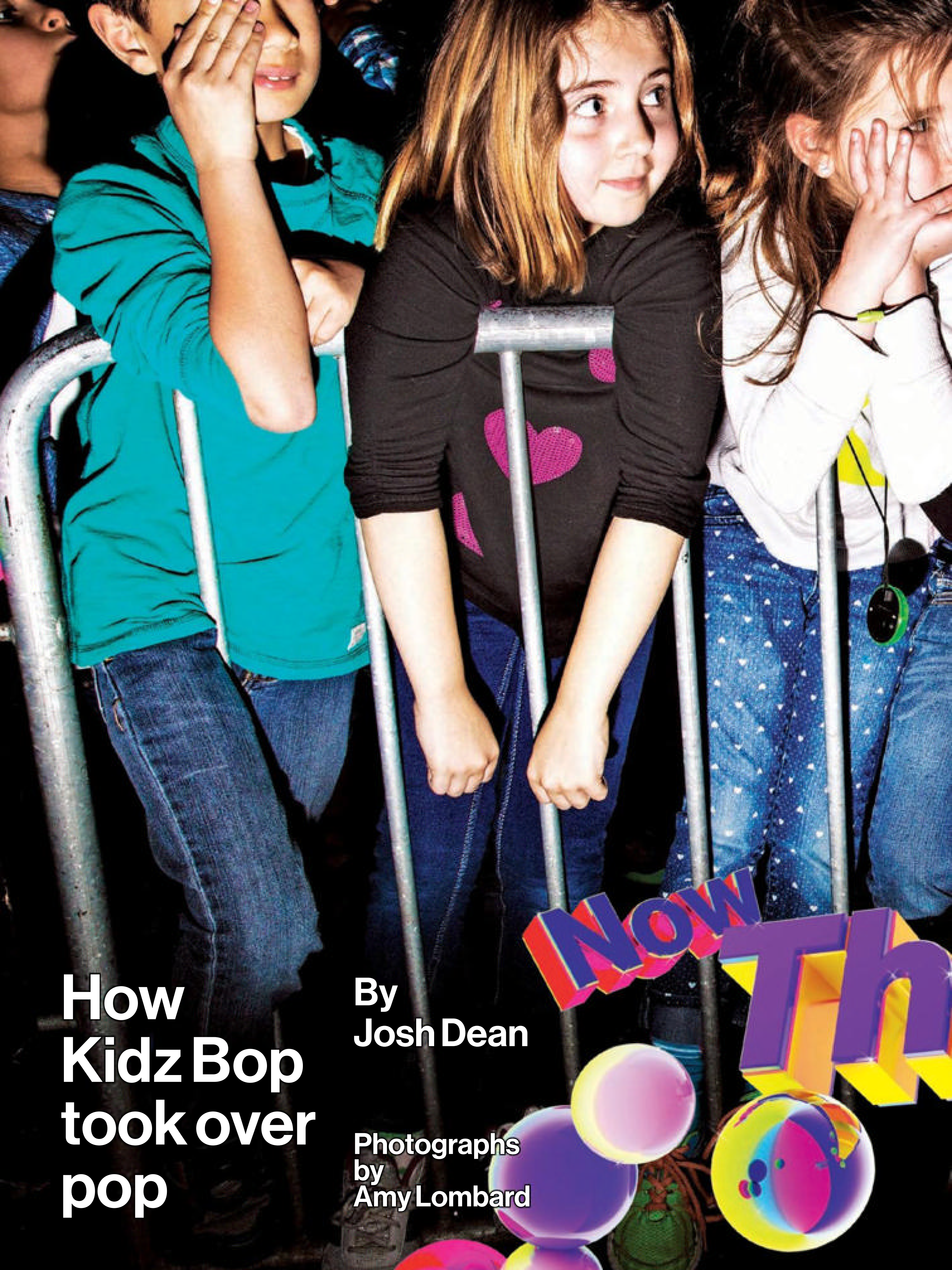
Dörig was in his office when I visited. He's 73 years old and at high risk of a heart attack, according to a letter from his physician filed in court. Dörig, who's been permitted to travel to Italy for family vacations in Venice, Genoa, and Sardinia, wouldn't talk to me, citing his indictment. "I kindly ask you not to exist," he said. In late March he was sentenced to probation and fined $125,000.

My last encounter offered a glimpse into the paranoia that's the undercurrent of everyday life for some of these men. Matthias Rickenbach is a Swiss lawyer with a master's degree from the University of San Diego. Federal prosecutors say he conspired with a UBS banker to help Americans evade taxes. In 2009 a U.S. District Court judge declared him a fugitive.

Rickenbach still has his law practice, offering tax advice from a house in the tony suburb of Zollikon, just outside the Zurich city limits. The giant picture window in his corner office offers a gorgeous view of Lake Zurich. Asian art decorates the entryway. When I knock on the front door, an elderly woman, apparently Rickenbach's secretary, opens it. After I introduce myself, she retreats. A moment later, the door opens again and she hands me his business card. She then disappears once more.

Through the windows beside the door, I can see a man in a dark suit. He's pressed up against the wall on the opposite side of me, trying to avoid being seen. I can't tell if it's Rickenbach.

The woman returns a moment later and says "one of our lawyers" told her she isn't permitted to hand out the business card. After a brief tussle, she snatches it from my hand and dashes back indoors. Ⓑ
—*With David Voreacos and Corinne Gretler*



How Kidz Bop took over pop

By Josh Dean

Photographs by Amy Lombard

Kidz Bop fans at the House of Blues in Dallas in March

It's not Take Your Child to Work Day at Sirius XM, but at first it seems so as four adorable middle-schoolers slip into the Manhattan lobby of the world's largest satellite radio network. Dressed in artfully tattered tees, Adidas sneakers, and bangles and cuffs, they're followed by an entourage—mostly made up of their moms.

A Sirius employee laments that the kids have just missed Lily James and Richard Madden, stars of the new live-action *Cinderella* movie, and that causes four sets of skinny shoulders to sink. Their spirits revive quickly, though, with the appearance of Kenny Curtis, a father of seven who hosts a four-hour "block party" on the Sirius channel Kids Place Live. Curtis is due to interview them for an upcoming show, and the kids giggle over a memory of the last time they met, when Bredia Santoro, who has cascading ringlets and an exaggerated side part, showed off her impressive belching ability. This time, Curtis suggests, she should attempt to burp the alphabet, and everyone agrees that's a hilarious idea. "You have to know the audience," he says.

The foursome is the current lineup of Kidz Bop, the most underrated force in American music. Along with the Curtis interview, they're at Sirius to tape a series of "liners," radio-speak for those snippets of audio that play between songs to convince listeners that the voices they're hearing are actually live in the studio. For example: "Hi, I'm Bredia from the Kidz Bop kids, and I'm in New York right now! Wooooo!" The child artists are in the Sirius studios for a maximum of two hours every few months, recording for the dedicated Kidz Bop channel and taping interviews like the one with Curtis, who was totally not kidding about the burping alphabet thing.

The four carefully attired kids take seats around a U-shaped table in a small glass recording studio, and they are Santoro, 13 (both of her parents are scientists!); Matt Martinez, 11 (believes in aliens!); Ashlynn Chong, 13 (plays 10 instruments!); and Grant Knoche, 12 (loves crab legs!). Each goes publicly by first name only and fits a specific role and vocal type in the ensemble. They were chosen in 2013 after a long national search. There used to be five, but Jayna Brown left last year "to pursue other opportunities," says Sasha Junk, senior vice president for marketing for Kidz Bop. "The others had jelled and were great as just four, so there was no need to recast a fifth kid." Matt, Bredia, Ashlynn, and Grant each come from a different part of the country, but for roughly 10 months a year they're together, practicing, recording, performing at concerts, and appearing at autograph signings, charity events, and on TV.

The current lineup, from left: Bredia, Grant, Ashlynn, and Matt

Target and Wal-Mart "treat us like a major front-line release. They'd be foolish not to. We're selling units"

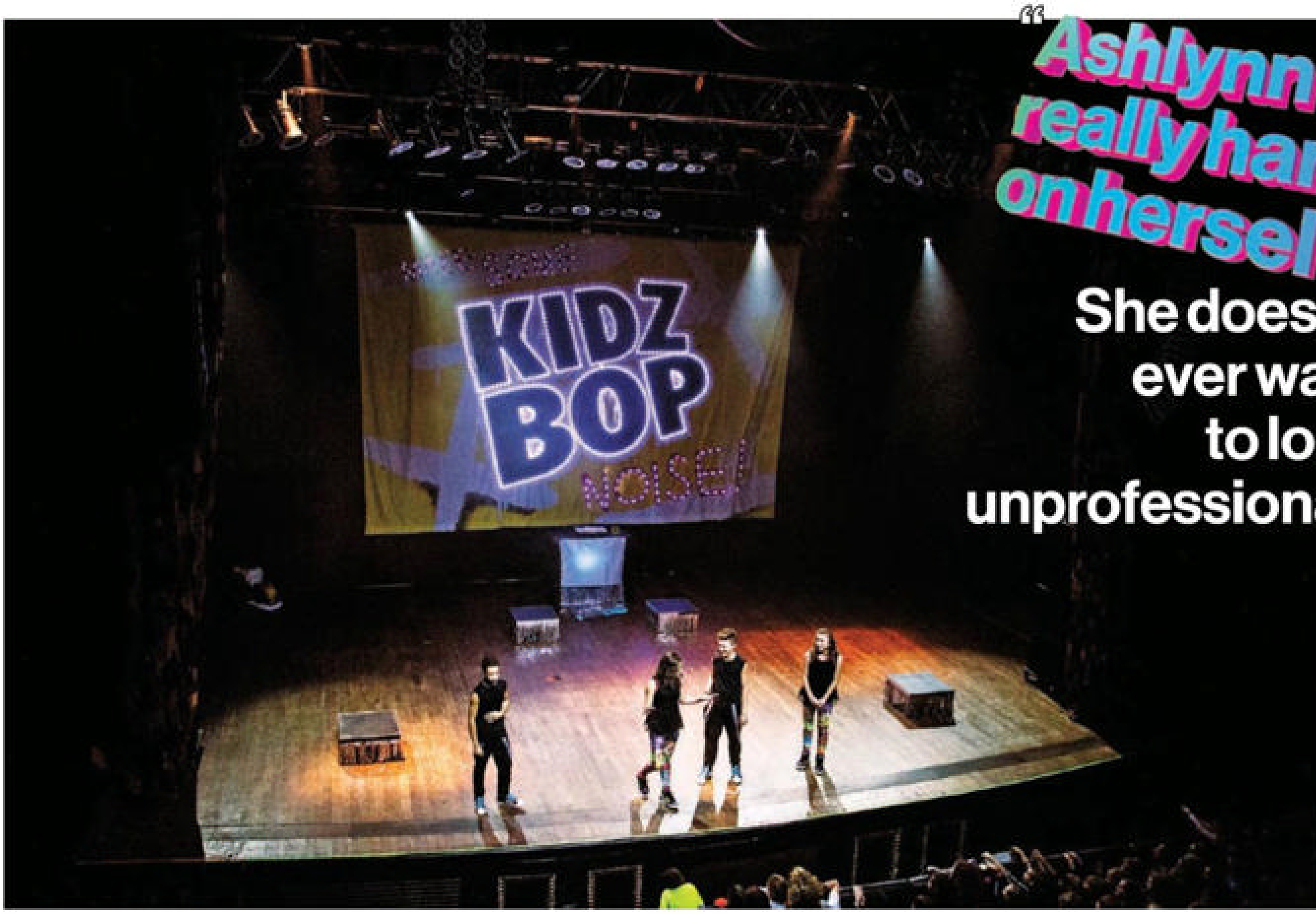
Kidz Bop was formed in 2002 and, for the first seven years and 16 records, was essentially a marketing concept—a popular series of compilation albums featuring a rotating cast of young session singers who covered pop hits. Craig Balsam and Cliff Chenfeld, the two record executives who created Kidz Bop, could easily have kept on with that successful formula, putting out albums of covers performed by anonymous kids, but they realized that the product would be even more attractive to its audience if those cheerful voices were attached to identifiable personalities. And so they shifted to a star-centric concept. Kidz Bop is now periodically replenished with personable preteens who are promoted almost as furiously as their albums, which are still covers of hit pop songs. Doing A&R for Kidz Bop has to be one of the least stressful jobs in music.

Today's foursome is the third lineup. They appear in Kidz Bop commercials, shill for McDonald's and Macy's, and star on a YouTube channel with almost 18 million views in a little more than a year. In 2014, Kidz Bop got its Sirius station, and the band/brand launched its first tour, performing 45 concerts across the U.S. This year, after a decade of putting out two records annually, Kidz Bop will release four, plus the occasional seasonal specials.

In an industry filled with uncertainty, where a battle rages between artists and labels over the future of distribution, Kidz Bop is a rare success. The last album, *Kidz Bop 27*, made its debut at No. 3 on the *Billboard* 200 album chart, the 10th consecutive Kidz Bop record to appear in the top five. Only eight artists in history have had more top-10 records than Kidz Bop's 21, and more than 15 million Kidz Bop albums have been sold since the brand's inception. *Billboard* has named Kidz Bop the "#1 Kids' Artist" for five consecutive years, and in 2013 the band accounted for 18.8 percent of all children's music units sold, according to Nielsen SoundScan.

Kidz Bop kids start around age 10 or 11 and are groomed by a team of coaches and advisers. As they grow, the kids get more polished, but their enthusiasm remains a constant. They don't lack pep. "Did you know we're on our Make Some Noise Tour?" Ashlynn says into a mic at Sirius. She furrows her brow and asks to do it again, then again, moving the emphasis from one word to another. She has the polish of a young newscaster, with meticulous diction. "Ashlynn is really hard on herself," says Theresa Parilo, the group's full-time teacher. "She doesn't ever want to look unprofessional."

Parilo is just one of the adults chaperoning the proceedings. There's also the



"Ashlynn is really hard on herself. She doesn't ever want to look unprofessional"

A&R guy, Michael Anderson; Amanda Andrews, the vice president for live tour operations, who's also the kids' company-appointed manager; two moms; and Victor Zaraya, Kidz Bop's chief operations officer. Zaraya says the difference between these kids today and in 2013, when they were new, "is tremendous. They're so professional now."

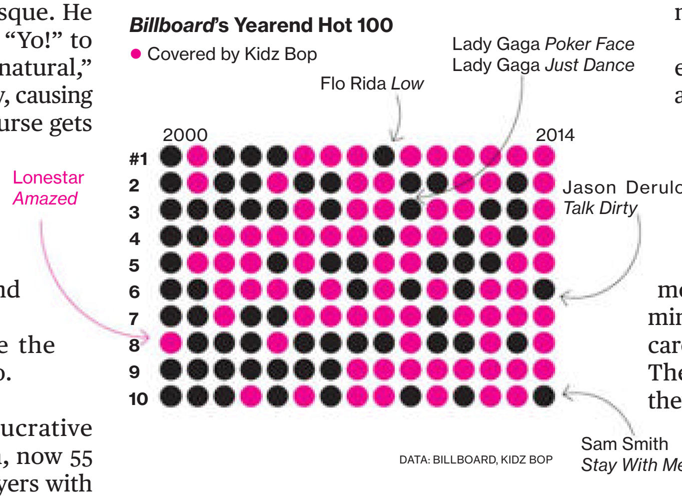
That said, they're kids. Because one microphone is malfunctioning, Ashlynn and Grant are forced to share a mic, which puts their faces in uncomfortably close proximity. This distracts them both, especially Grant, who has messy hair and wears a sleeveless vest. He could be described as Justin Bieberesque. He requests a script change from "Yo!" to "Hey!" because "It feels more natural," and then flubs his line repeatedly, causing Ashlynn to giggle, which of course gets Grant going, too. Next thing you know, they're all laughing, which doesn't amuse the grown-ups. A clock in the corner ticks away.

"Guys, take a deep breath and just chill," Andrews says.

"Do we need to rearrange the seats?" asks a stone-faced Parilo.

Kidz Bop is something of a lucrative accident. Chenfeld and Balsam, now 55 and 54, were young, bored lawyers with a mutual love for writing and playing music when they founded the independent record label Razor & Tie in 1990 out of Chenfeld's Manhattan apartment. Their concept was to take hits from the 1970s—music they grew up on—and repackage the best songs as compilations. This was when compact discs and cable TV had yet to exert cultural dominance. "Between those two things, we came up with the idea of marketing '70s music on TV," Chenfeld says, sitting at a conference table in the company's Greenwich Village headquarters. The space houses both Razor & Tie and Kidz Bop, which share finance, media buying, and sales, among other operations.

Billboard's Yearend Hot 100



DATA: BILLBOARD, KIDZ BOP

Razor & Tie's first record was *Those Fabulous '70s*. It was marketed via a kitschy 30-second television spot featuring a guy in a leisure suit billed as the "head of the '70s Preservation Society" that's surely familiar to anyone who watched late-night TV in the early '90s.

The company grew quickly, exploiting bargain air space on emerging cable channels such as the Game Show Network. "We killed it on that channel," Chenfeld says. The margins were small, but Razor & Tie had several smash hits, including *Monster Ballads*, which sold more than 3 million units.

Balsam and Chenfeld became experts in strategic media buying and in selling directly to consumers, back when that mostly meant mail order. The partners built a lean, vertically integrated company that knew how to tap niche audiences. They produced their own commercials and, because they were mining prerecorded music, had no career development costs to cover. They began to wonder what else they could sell that way.

By the end of the '90s, both had young children. They spent too

many weekends on the bleak frontier of the toddler birthday party scene, an endless tour of confetti-strewn rooms where the music was either too saccharine for grown-ups and boring for older kids, or entirely too grown-up and inappropriate.

"That was around the time that Eminem, Britney Spears, and a lot of music that parents thought was over-the-top and threatening to their kids was coming out," Chenfeld says. There seemed to be a market gap waiting for someone to exploit. The partners struck on the simple solution of current pop songs recorded by kids and cleansed of all inappropriateness. "We needed to split the difference," Balsam says, "between Barney and Britney or Elmo and Eminem."

They hired some adolescent session singers, recorded 20 songs, and made a commercial at a summer camp outside New York. For a name, they wanted something generic and inoffensive, a moniker that could signify almost anything to young people but which was also different enough to be trademarked (hence the "z" in Kidz). They aired their first commercial in January 2000. "It just blew up," Chenfeld says.

The partners ramped up their ad buying, running spots for nine months before putting a single Kidz Bop album in a store, building brand recognition while doing direct sales. It worked. During that time, Kidz Bop sold more than 800,000 albums using only a 1-800 number and a crude website.

"I like the message: kids listening to kids singing the music they hear on the radio without any bad words"

Today, Kidz Bop is still true to its origins in direct marketing via TV—its commercials play almost incessantly on all the major kids channels. But the brand has other means of transmission. Young friends introduce it to each other; even schools help spread the word. That's how Jen Fineran, a mother of two from Nyack, N.Y., discovered Kidz Bop. One day her son, Jasper, then 4, came home from preschool singing Katy Perry's *California Gurls*, whose official lyrics include references to "gin and juice" and "sun-kissed skin so hot, we'll melt your Popsicle." She asked his teachers the next day whether this was age-appropriate music. "They were like, 'No, there's this thing called Kidz Bop, and my kids loved it,'" Fineran says. She loved the track, too, and that's the real magic of Kidz Bop. It's truly music that kids love and parents can tolerate, possibly enjoy. Fineran says that as an overwhelmed new mother, she'd "lost connection" to popular culture and that Kidz Bop was "really my reentry into what young people were listening to."

Jasper, now 9, is on the verge of aging out. "I used to really like it when I was like 4 or 5," he says. "Now I like more of the actual songs." But his sister, Echo, 7, is still committed to the brand. "I have a ton of CDs. It's my favorite thing to listen to," she says. "My favorite song is *Wrecking Ball*"—a Miley Cyrus cover stripped of any hint of violence or sexuality. For example, a line in the original is: "And instead of using force, I guess I should've let you win." Kidz Bop: "And instead of losing more, I guess I should've let you win." (A more extreme example: "We're higher than a motherf-----," from Nicki Minaj's *Starships*, gets Kidz Bopified as, "We're Kidz Bop, and we're taking over.")

"I like the music," says Chrissy Jenkins, a mother from Dallas whose 9-year-old daughter, Madeleine, is a fan. "And I like the message: kids listening to kids singing the music they hear on the radio without any bad words." And now that there's a tour, the live experience presents an

opportunity for parent-child bonding. Jenkins recently took Madeleine to the 2015 Make Some Noise Tour opener in their hometown.

The tour is a critical vehicle for Kidz Bop growth, furthering the evolutionary shift from "a generic CD box of cover songs," as Chenfeld refers to the original concept, to a carefully selected ensemble who represent the brand for three years. The perky videos and commercials in prior years featured actors playing the parts of Kidz Bop kids. The video for *Uptown Funk* is as much about Bredia, Grant, Matt, and Ashlynn as it is about Kidz Bop, though you certainly won't forget the band name either, because the logo makes frequent and gratuitous appearances among the splashes of color and fake spray paint, the streamers and black lights and elaborate choreography.

There's been a notable bump in polish over the past few years, and any lingering taint of the infomercial era is gone. What consumers see now is much closer to, say, the manufactured child prodigies turned out by the Disney and Nickelodeon assembly lines, which have produced Spears, Cyrus, and Ariana Grande, among others.

One way to look at the music industry is that the sky is falling. The traditional way of making money—selling albums—has collapsed, and the thing that's replaced it—streaming—is still in its infancy. The way the Kidz Bop co-founders see it, there's never been more opportunity to profit, especially when selling music to children.

Entertainment has been untethered from its gatekeepers. Anyone can create content and build an audience. In prior generations, Nickelodeon and Disney used TV shows to launch the careers of pop stars and actors. Now Kidz Bop can do the same thing by going straight to the consumer with low-cost programming on its YouTube channel, which averages 1.5 million views a week. That content spreads via social media, especially Facebook, where the number of Kidz Bop "likes" increased 350 percent last year, to 217,000. Today's flat media universe is almost perfectly aligned for Kidz Bop.

"We can create opportunities for the Kidz Bop kids that do not require Nickelodeon to say, 'Here's a 30-minute TV show,'" says Chenfeld. "Or Z100 [a New York City top-40 station] to say, 'We'll play your kids' song.'"

Being a Kidz Bop kid may be a constant process of grooming and voice coaching, but a performer's time in the role is ephemeral. In a year or so, Ashlynn, Bredia, Grant, and Matt will be too old. To just let them go out into the entertainment world, possibly to blossom, is a lost opportunity. So the logical move is to offer them a next step. Kidz Bop can extend contracts with future breakout stars in exchange for exposure as a solo artist: a Sirius show, a YouTube show, or an opening slot on the summer tour. "You get two songs on the tour. You get a song on the next record. It's a very contemporary way of talent development," says Chenfeld. "Ultimately, this is an area that we could go much further with."

There's certainly more vertical integration to exploit. Razor & Tie has a songwriting division. And the next Kidz Bop album—No. 29, due in June—will include the first original song in the brand's history. Titled *Make Some Noise*, it won't be just some tossed-off bonus track; it will be the song featured in the flagship music video.

"We don't have something on the books right now that says one of the kids by next March is going to be the next Justin Timberlake," Chenfeld says. "But we are also no longer just looking at them as kids who are singing covers."

"That's, I think, what's exciting—branding these kids who are clearly talented individually and really making it about them as individuals," says Jim Butler, an agent at Creative Artists Agency who books the tour.

Like the original concept for the albums, the Kidz Bop tour is designed to occupy an unfilled niche. It's the space between concerts that bore parents and mature kids (Barney, Sesame Street) and those that appeal to kids but play long after dark and could have uncomfortable themes (Taylor Swift, Perry). For many children, a Kidz Bop show is likely to be the first concert they attend. This year's first two shows, the one in Dallas and one in Seattle, sold out. For now, the band's filling modest venues—about 2,000 seats. Butler says the tour will soon mirror the success of the albums. "Just like they sell millions of records, we should be able to sell millions of tickets," he says.

Last year, Kidz Bop's co-founders bought back a 50 percent stake in the company that they'd sold to private equity group ABRY Partners in 2006, and they've been on an expansion binge ever since. They declined to disclose Kidz Bop's revenue. The company says it pays an industry standard licensing fee of about 9¢ per song sold.

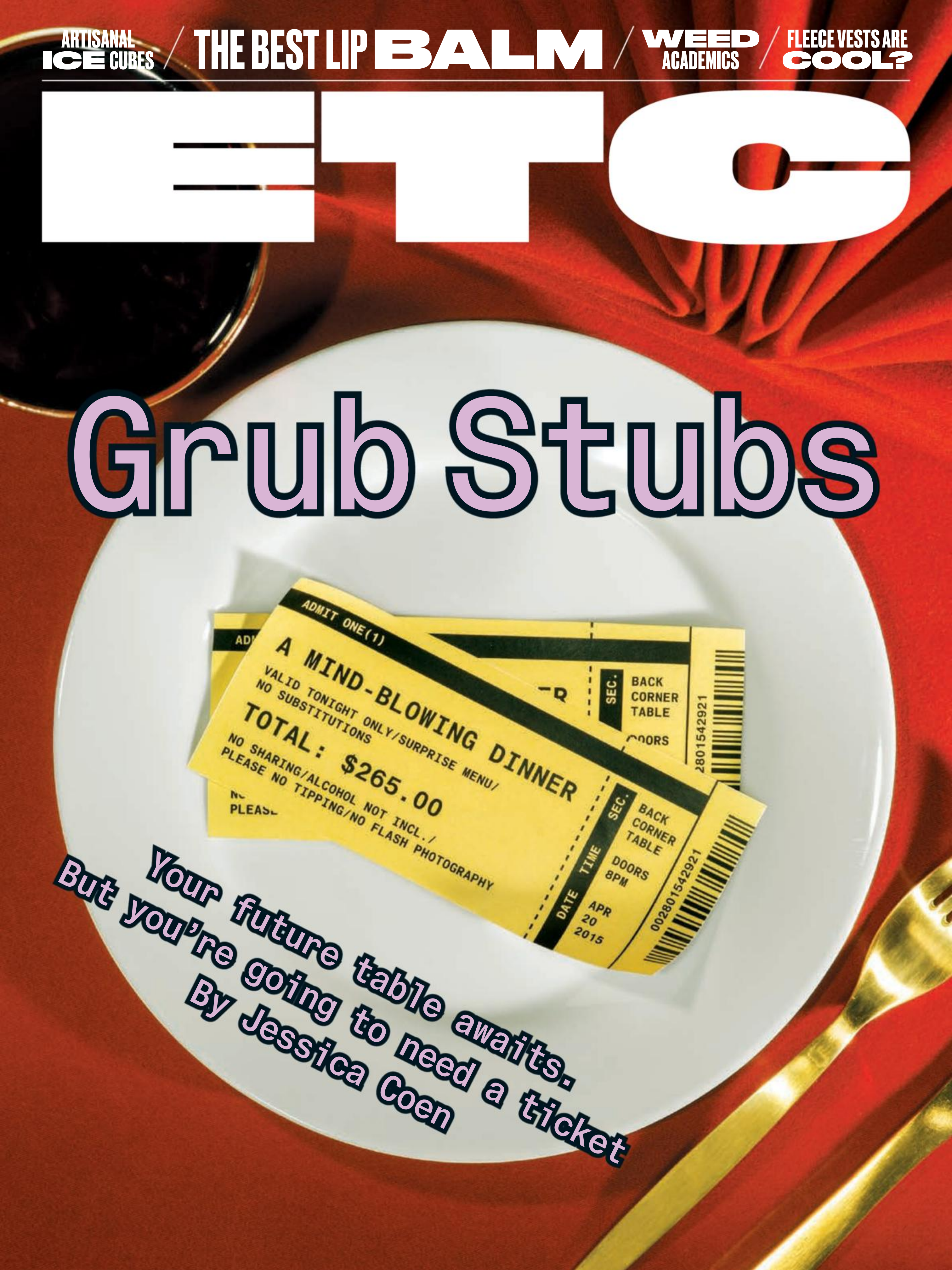
The new production schedule of four albums a year will let the company better exploit hit songs and, though each individual album will probably sell less than it would in a six-month period, the company expects to move more total albums per year. Retailers, especially big-box stores such as Target and Wal-Mart, will be happy. "They treat us like a major frontline release," COO Zaraya says. "They'd be foolish not to. We're selling units."

The brand is also constantly increasing its presence in kids' lives. Commercials starring the group air in heavy rotation on Nickelodeon, Disney, and other cable channels. Kidz Bop is one of the most consistently popular children's artists on Spotify, which contracts with the company to curate and create playlists. Kidz Bop is prominently featured on YouTube's new kids app, and the Sirius XM station gives the brand a 24-hour pipeline to 27 million homes and two-thirds of all American cars. There are Kidz Bop-themed events at both Six Flags and Universal Studios. "We're everywhere kids want to be," Chenfeld says.

There's also an international push. Kidz Bop is already in Canada, and more English-speaking markets are under consideration. Finally, another opportunity is coming around: a new generation of young parents who are the first to have grown up with Kidz Bop. They have nostalgia for the brand, and they don't need to see the commercials. Ⓑ

ARTISANAL ICE CUBES / THE BEST LIP BALM / WEED ACADEMICS / FLEECE VESTS ARE COOL?

ETC



Grub Stubs

Your future table awaits.
But you're going to need a ticket
By Jessica Coen

Nick Kokonas is standing at a giant whiteboard in his office above Next, one of three acclaimed Chicago restaurants he co-owns with chef Grant Achatz. Somewhat feverishly, he begins to chart out the current state of booking a table for dinner. “Reservations are predicated on two people lying to each other,” he begins. Good restaurants hedge bets on their availability, claiming they have fewer spots than they do. Patrons cancel for a host of fictitious reasons. Short of actually picking up the phone, the most popular method of scoring a reservation is OpenTable, an online platform that Kokonas says does well only because the company got into Internet reservations first. “It’s mind-numbing to me,” he says. “They earn money from leasing this antiquated technology.”

Since it began in 1998, OpenTable has grown to serve more than 32,000 restaurants, but the process is duplicitous. Request a same-day table for three at 7:30 at José Andrés’s latest D.C. restaurant, China Chilcano, and OpenTable comes up empty for prime-time spots. Pick up the phone, however, and the receptionist will happily book it in less than a minute. That’s because OpenTable, which was sold last year for $2.6 billion to Priceline Group, charges restaurants a small fee (about $1 per seat) for each booking, so they’re better off keeping their top times to themselves—they’ll fill them just as easily without paying the fees. (OpenTable declined to comment for this story.)

Most popular restaurants can predictably fill those slots, though it’s less certain when tables will turn over or whether they’ll end up empty because of no-shows and cancellations. So when you call for a spot at a specific time, the restaurant plays a guessing game: Do we lie and say a table is available? Do we lie and say there are no tables available? Wait lists, meanwhile, are pointless: What are the chances someone’s free to commit to an epic 10-course tasting menu at 45 minutes’ notice? Several new apps—Resy, Zurvu, Killer Rezzy, and Shout among them—promise to ease the process for diners in exchange for a fee, but none of them has access to all the tables available at a given restaurant.

The dinner reservation is broken. It’s “negative, negative, negative,” as Kokonas, 47, declares, energetically shaking his head at the futility of it all. “It’s a lottery on the phone. Why not be transparent, open up five months [of reservations], and sell them off?”

That’s where Tock comes in. At its core, Kokonas’s new company provides a ticketing system, using a model much like the one for a concert or football game. Eating out is an event: When you log on to a restaurant’s Tock page, you’re presented with a calendar of options. There’s zero confusion about available table sizes and times, and reservations are secured by paying ahead for the entire meal. Most seats are dynamically priced, with cost determined according to demand. (Five o’clock on a Tuesday, for instance, might be priced like a nosebleed seat at a ballgame.) Customers are free to resell their digital tickets at face value via Facebook or Craigslist or any other way, but there are no refunds—if Beyoncé doesn’t give them for her live performances, why should a Michelin-starred chef?

Before starting Tock, Kokonas tested a similar system at his three establishments—Alinea, Aviary, and Next. After he opened Alinea to international fanfare in 2005, he was spending $140,000 a year on staff dedicated to managing the constantly ringing reservation line. He was also losing an average of $260,000 a year on cancellations and tables with partial no-shows. Convinced there had to be a better way, he developed an unsophisticated ticketing program in 2010. “I didn’t make all this s--- up because it was exciting to me to build this software company,” he says. “It was driving me nuts.”

In 2011 he decided his new restaurant, Next, would offer reservations exclusively via the online platform. Happy with the results, Kokonas eventually rolled over his other places to the system. Since it switched to tickets, Alinea’s net profits have gone up 38 percent, a stat Kokonas crowed about last June in a 6,000-word essay arguing that ticketing was the future of restaurants. The post went viral among avid diners and chefs who wanted to adopt the program. “I was getting 10 restaurants a day e-mailing me,” Kokonas says.

Now more than a thousand restaurants worldwide have signed up to purchase the Tock software, which will sell for a one-time flat fee of $695 once it’s ready

“The restaurant industry is a Trojan horse to doing more broadly, dynamically, and variably priced things in our economy”

Kokonas at his restaurant Next

PREVIOUS PAGE: PHOTOGRAPH BY COREY OLSEN FOR BLOOMBERG BUSINESSWEEK. KOKONAS: PHOTOGRAPH BY MARCUS SMITH FOR BLOOMBERG BUSINESSWEEK

Restaurant Math

Kokonas says tickets will increase profits, cut down on no-shows, and save diners cash…so long as they're willing to eat at 9:45 on Tuesday night. Below, some illustrative numbers

$15.1m
Revenue from ticket sales at Kokonas's three establishments in 2014

$45m
Total revenue at 19 Tock partner restaurants since testing began last fall

1,000+
Number of restaurants signed up to join Tock

$695
One-time fee a restaurant pays to join Tock

$0
Amount Tock takes from each ticket sold at partner restaurants

22%
Revenue increase at Aviary—Kokonas's bar—since starting $20 deposit tickets in 2013

70%
Diners who want to reserve the same 8 p.m. tables on Friday and Saturday

8%–15%
Diners who, on average, tend to skip a traditional reservation

1%
Restaurant no-shows with ticketing system

$65
Amount diners could save on Tock if willing to buy a ticket for a less desirable time slot

20%
Mandatory tip applied to Tock tickets

this spring. Right now, 19 restaurants, including high-end establishments such as New York's Per Se, San Francisco's Coi, and Los Angeles's Trois Mec, are testing Kokonas's "legacy" program while the new system is perfected. When Tock becomes available, it will have a sleek interface for both the customer and the restaurant. Built-in options will include one-off event tickets and deposit-only reservations for a la carte menus. Tock will also provide tools for restaurants to thoroughly manage their books, down to analyzing sales and suggesting price variability.

Even the beta program can get the job done. When Wylie Dufresne leased the platform for a set of final dinners at his restaurant WD-50, which closed in November, ticket sales hit $104,000 in less than 10 minutes. "It was interesting to be able to watch everything happen in real time, from the time we went live to when we sold out just a few moments later," he says. Still, for ticketing to work, there needs to be enough desire for tables to get customers to try an entirely new method. Daniel Patterson, the owner of Coi, says this was his initial hesitation when he signed on to test Tock last July. "My only concern was if demand for our restaurant was sufficient enough to make the switch, since we had been using OpenTable for so long," he says. Months later, he's no longer worried.

Kokonas says he has no intentions of abandoning his restaurants to go it alone in the software business. Tock's grandiose philosophy aside, the project is merely another revenue stream. Originally, he planned to funnel his own money into getting it off the ground; he ended up raising "several million dollars" from industry folks who wanted to get involved, which puts the value of Tock at more than $10 million. "I wanted certain people with certain skill sets to invest, because they were people I knew," Kokonas says. They include chef Thomas Keller, Twitter Chief Executive Officer Dick Costolo, and R.J. Melman, managing partner of Chicago's Lettuce Entertain You Enterprises, which owns more than 100 restaurants globally.

"The interesting thing about Tock is where it's going," Melman says. "There's a future for this software that will go beyond ticketing for prix fixe restaurants." Kokonas sees its usefulness extending past the restaurant industry, too. "The toolbox we're building works for doctors. It works for your hair salon. It works for any time-slotted businesses." Yet the act of buying a ticket to something has a specific connotation, and it's not one you'd associate with a visit to a proctologist. Kokonas disagrees: "The restaurant industry is a Trojan horse to doing more broadly, dynamically, and variably priced things in our economy."

Currently in startup mode, Kokonas reads like a chill dad in his jeans and V-neck sweater, with longish salt-and-pepper hair. He's thrilled to show off Tock's bare-bones loft space, which lends the company a hint of indie tech cred. Colored lights hang throughout. Programmers blast Led Zeppelin as they silently tap away on code. The company employs 10 people, all of whom work in tech, design, and user experience; there's no need for salespeople yet. Brian Fitzpatrick, formerly head of Google's Chicago office, is leading the team. A true believer in Kokonas's vision, Fitzpatrick "just wants to create a great piece of software," he says, one that "disintermediates the patron from the restaurant."

But do patrons want disintermediation? The first time you use it, the ticketing method can be jarring: Paying $1,500—nonrefundable, service included—for a table of four two months in advance feels a little absurd. It can leave customers quadruple-checking to make certain that, barring an act of nature, they'll be able to make it. Otherwise they're left praying to the Internet gods that they can successfully unload the tickets.

Another potential source of agitation is the 20 percent tip rolled into the cost of tickets. That's not how things are usually done on this side of the pond. But with major chefs such as Tom Colicchio and Daniel Boulud being sued in the past for potentially stiffing their staff of tips, perhaps it should be. (Both chefs settled out of court.)

Kokonas, once again, has a prediction. In five years, he says, the tipping landscape will be very different, with most restaurants including mandatory service fees in their bills. "Everyone is so afraid to be the first to change something," he adds. But ticketing or service fees? "This is so f---ing easy, it's unbelievable," he says, eyes wide and hands in the air, as if he can't fathom how the rest of the industry hasn't already figured this out. B

THINKING MAN'S MARIJUANA

America's least illicit drug gets the business-book treatment. By Drake Bennett

In fall 2012, Bruce Barcott, a Seattle native who hadn't touched a joint in decades, checked "yes" on the Washington ballot initiative to legalize marijuana. When it turned out that a majority had voted with him—not only in his state but also in Colorado—he began to wonder what they'd done. His attempts to answer that question grew into *Weed the People*, a chronicle of America's ongoing experiment with legalization (and not, as the title might suggest, a eugenics manifesto). For a century, grass has been a political lightning rod and cultural badge. With legalization, it's also a commercial enterprise, and not only for the Chapo Guzmans of the world. *Weed the People* is, in other words, a business book.

But marijuana isn't just any business. The cast of characters in its story includes Pancho Villa and Fiorello La Guardia, Richard Nixon and Dr. Sanjay Gupta. Millions of people are in prison today for selling or transporting or simply possessing it. Much of this has been covered before, but Barcott adds his own twists. He suggests it's no coincidence that gay marriage and legal pot have gone mainstream at the same time. The two issues have been linked for decades: Gay-rights activists were early proponents of medicinal marijuana, fighting to give the drug to dying AIDS patients.

Most of the book is about legalization's entrepreneurial land grab. Barcott spends chapters following the clean-cut executives from Privateer Holdings, a private equity fund in "the cannabis space," as they look for companies to invest in. He talks to longtime growers as they jump through the regulatory hoops that magically transform them from criminals to would-be members of the chamber of commerce. He tracks the antic efforts of Pete O'Neil, a former dog salon manager, to start a chain of Seattle pot shops. By the end of the book, Barcott has placidly settled into his own moderate marijuana habit: "I have my vape pen, and I use it a couple times a month, usually late at night."

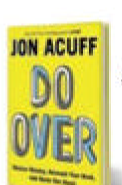
One of the difficulties in writing about business—and not, say, drug trafficking—is that so much of the day-to-day practice is boring. It turns out that's true even if you're selling pot. Among proponents of legalization, that's exactly the point. They want the drug to be seen as a safe, regulated product. They want it to be boring.

That's a challenge for the book, though, and Barcott never gets past it. Much of *Weed the People* is full of detailed scenes of people sitting at tables haggling over contract terms, arguing about zoning, or taking calls and glad-handing in convention centers. And the flatness of this material is, if anything, highlighted by the book's occasionally overbaked prose. There are passages of hazy grandiloquence: "Somewhere in his head the ghost of the future moved." And lots of pregnant periods: "The glandular miasma of marijuana. Weed. *Cannabis sativa*." The word "bro" is used a lot.

Still, as legalization spreads—California is looking likely next year—it's easy to imagine *Weed the People* being passed around by campaigners and entrepreneurs. It has a lot of useful information. It also paints the growers, distributors, marketers, and investors trying to get in on the new market as heroes. "My two-year expedition into the marijuana world left me more suspicious of government authority and more hopeful about the common sense of most Americans," Barcott writes. A self-described coastal liberal, he's written a love letter to cannabis capitalism that Rand Paul could endorse. B

MASTER CLASS

MAKE THE MOVE



Do Over: Rescue Monday, Reinvent Your Work, and Never Get Stuck
By Jon Acuff (Portfolio Penguin), $26.95

Quit your job? "**There are a million ways to get stuck in a career**, but every version shares a suspension of creativity. Our ability to desire a better job gets wounded." *p30*

Don't merely seek out advice from mentors. "The best way to get a quick temperature check on your attitude [toward your job] is to ask a friend. Better yet, find an advocate who can ask you terrible questions. When they give you good advice, be humble." *p109*

You will eventually top out at your current gig. "**Bumping into a ceiling isn't failure, it is training**…designed to test your mettle and see if you really have what it takes to break through to the next level." *p148*

It's fine if you're confused. "We think we have to figure out our lives before we hustle, but the opposite is actually true. **Purpose is often a by-product of hustle**, not a prerequisite." *p238*

ILLUSTRATION BY DAN STAFFORD

Patagonia lightweight Synchilla Snap-T vest, *$89; patagonia.com*

Bonobos Jet-setter suit, *$525,* Daily Grind striped shirt, *$98,* and silk necktie, *$78; bonobos.com*

When looking for a vest, stick to neutral colors–blues, grays, etc.–reserving anything brighter (like the red seen here) for accents. Don't match the vest exactly to the jacket, either.

PHOTOGRAPH BY ROB KULISEK FOR BLOOMBERG BUSINESSWEEK; MOUNTAINOUS BACKGROUND: MICHAEL BLANN/GETTY IMAGES

Fancy Patagonia

How to wear fleece at the office, even if you don't work in tech

Polar fleece might as well be the official fabric of Silicon Valley. And as April's gray haze invades, no fabric is as practical. It's too hot for a heavy coat right now but not yet hot enough for no coat. Fleece is the right weight. Fortunately, it's getting a makeover.

Not since the late 1990s, when Old Navy released those obnoxious TV ads, have so many fuzzy pieces cropped up on city streets. And on fashion runways, too, where a trend toward athleisure–clothes that are athletic and leisurely–has led labels like Louis Vuitton and Patrik Ervell to produce upscale versions.

For the office, avoid mountain man vibes by wearing fleece items under a classic gray or navy suit, perhaps along with a tie. Patagonia, the Ventura (Calif.) company that originated the idea and has never wavered from it, still makes the best versions. Its lightweight material is made from a thin polyester that won't bulk up under your jacket, with color blocking to make it interesting. Choose a smaller size for a tailored fit, and opt for a vest instead of a jacket with sleeves; otherwise, the fabric may bunch near the wrists, like caulking. On weekends, lose the suit. The vest works with casual shirts, but maybe don't pair it with a tee. Ⓑ —*Kurt Soller*

THE ULTIMATE LIP BALM TEST

We slathered on 50 popular options to find spring's best. By Katie Chang

Hard-core protection–like armor. Too much?
Aquaphor lip repair *$4.99; walgreens.com*

Tastes delicious

Diptyque soothing lip balm *$35; diptyqueparis.com*

Smells like a rich, French hippie

Anthony advanced formula lip balm mint and white tea SPF 25 *$8; anthony.com*

One application lasts hours

Darphin age-defying lip balm *$40; darphin.com*

Good for everyday; a little sweet though

Burt's Bees honey lip balm *$3.30; burtsbees.com*

Best all-natural choice

Yes to Coconut naturally smooth lip balm *$2.84; target.com*

Nivea a Kiss of Moisture essential lip care *$2.39; drugstore.com*

A wallet-friendly basic balm

Malin+Goetz lip moisturizer *$12; malinandgoetz.com*

Use a tiny dab

Supersmile ultimate lip treatment *$24; supersmile.com*

Air Repair rescue balm *$12; airrepairskincare.com*

Blistex medicated lip ointment *$2.19; drugstore.com*

Left a weird white film

Silky

La Mer the lip balm *$55; cremedelamer.com*

Looks cheap but feels like velvet

Bobbi Brown Yogi Bare lip balm *$19; barneys.com*

Use it on your entire face

Save this for your hands

Josie Maran argan balm *$42; josiemarancosmetics.com*

June Jacobs new lip renewal SPF 50 *$24; junejacobs.com*

Best sunscreen

Neova intensive lip repair *$22; neova.com*

Want to rub this everywhere

RMS Simply Cocoa lip and skin balm *$25; rmsbeauty.com*

Best on a budget

ChapStick total hydration 3 in 1 soothing oasis *$2.99; target.com*

A single pump plumps your pout

SkinCeuticals antioxidant lip repair *$38; skinceuticals.com*

Gives you old-lady lips

Maybelline Baby Lips moisturizing lip balm *$3.99; maybelline.com*

Supergoop! Fusion lip balm with SPF 30+ *$8.50; supergoop.com*

Goes on better than most sunscreens

Jo Malone vitamin E lip conditioner *$25; shop.nordstrom.com*

Gel-like formula

PHOTOGRAPH BY COREY OLSEN FOR BLOOMBERG BUSINESSWEEK

GOING CLEAR

An entrepreneur tries to sell prepackaged, unfrozen, flawless ice cubes. By Joel Warner

Nestor Villalobos sits in a Detroit factory, watching a tangle of conveyor belts and nozzles once used to produce yogurt cups fill thousands of plastic six-packs with ultrapurified water. "It's pretty awesome to watch this thing run," he says, though he's more excited about what comes next. Once the containers are popped in a freezer for four hours, they're meant to produce 2-inch cubes that are perfectly square, slow-melting, and completely clear–the "holy grail of ice," as Villalobos puts it.

The concept began to crystallize when, as a manager at tech company Systemax, he traveled to China in 2011 and was told having ice in his Johnny Walker Black would make him sick. Originally, Villalobos, 34, wanted to make sanitary ice. Then he began researching the industry and learned of Frederic Tudor, an early 1800s businessman who became obsessed with selling frozen water internationally from a pond at his Massachusetts home. Procuring cubes to cool drinks and preserve food was incredibly difficult at the time, a luxury limited to the rich.

It took Tudor a while–and stints in debtors' prison–to figure out how to ship huge, melt-resistant blocks across the ocean. Eventually, he became known as the "Ice King." In the years leading up to the Civil War, ice became America's second-largest crop by weight, beaten only by cotton. The boom lasted until the early 20th century, when electric freezers made shipping ice redundant.

After discovering this story, Villalobos decided he should resurrect Tudor's legacy. Two years ago he learned that Peter McCook, Tudor's great-great-great-grandson, lived 6 miles away in Miami, so the two met up. "We felt the Ice King would be pleased," McCook says of Villalobos's idea. He and his wife became shareholders. They also offered a great name: Tudor Ice Co., which the McCooks had trademarked years before for a snow cone stand at their kids' school.

Villalobos plans to sell his cubes unfrozen, for around $5.99 per six-pack, which he thinks will shake up the stagnant $2.5 billion U.S. packaged-ice industry. In 2012, Arctic Glacier and Reddy Ice Holdings, the two biggest players, filed for bankruptcy as grocers drove down prices with private-label alternatives.

But Tudor is not merely supermarket ice. Instead, Villalobos aims to ride the artisanal ice craze that has bars hiring carvers with Japanese handsaws and boutique companies slicing up 300-pound slabs produced by $4,500 Clinebell Carving Block Machines. The result is cubes that are uncloudy, which chic bars can charge extra for the privilege of enjoying. Villalobos knew his containers would have to create cubes that weren't just tasteless, but also large enough that they'd melt slowly and, crucially, remain free of bubbles or cracks.

"If he's found a way to mass-produce clear ice, it would have an impact," says Joe Ambrose, owner of Favourite Ice in Washington, D.C., who makes transparent cubes for bars using a Clinebell machine, which circulates freezing water to remove imperfections. One problem, says Mike Ryan, co-founder of Chicago's JustIce, is that water freezes from the outside in. When the center finally hardens, it expands, producing fractures. "Unless Tudor's figured out something outside the laws of thermodynamics, you can't get perfectly clear," adds Roberto Sequeira, founder of Gläce Luxury Ice, which ships 20 hand-carved spheres for $205.

After three years of tinkering and more than $1 million in capital from friends and Thesis Ventures, an investment firm in Florida, Villalobos says his cubes now freeze correctly. The patent pending process involves removing air from the containers before they're sealed, but it still needs some perfecting: Preliminary samples provided by Tudor came out of the freezer cloudy and cracked.

This hasn't stopped Villalobos from setting up a three-month test in Miami, where hotel bars such as the Ritz-Carlton Key Biscayne will soon spike drinks with branded Tudor Ice Blocks. High-end area liquor stores will also sell them.

If it works, Tudor could once again rise as the biggest name in ice, although there's already some controversy. Gläce recently introduced the Frederic Tudor Luxury Ice Club, which ships 50 cubes quarterly for $1,100 per year. Villalobos says the move infringes on his trademark, though Sequeira disagrees: "It's like saying you own the name George Washington." Plus, he's not sure that Tudor's product even counts as competition, especially if it isn't perfectly clear. "That market is already out there," Sequeira says. "It's called bottled water." Ⓑ

ILLUSTRATION BY JUSTIN METZ

Helen Levi

27, potter, Helen Levi Ceramics, Brooklyn, N.Y.

What do you make?
Mostly functional tableware, so everyday pieces: mugs, planters, bowls.

To whom do you sell?
I wholesale to stores and also sell directly on helenlevi.com. And I do commissions for restaurants and other places.

What does your necklace say?
Hevi. That was my tag in high school. I've worn it since then.

What's it like to run a ceramics company?
I'm living the dream. But it's also nonstop. I run every aspect of the business.

Do you end up working in men's clothes?
Yeah. It's hard to find durable workwear that's cut for a woman.

Why overalls?
To protect my chest. I'm always lifting something or resting it against myself.

Are those men's overalls?
No! A woman I met started this women's workwear company I'm really excited about. They do a mix of new and vintage. These are restored overalls. They reinforce the seams and patch the holes.

Do you have a work look?
I'm not too vain. I used to wear cuter clothes, but then everything in my closet got dusty and stained.

Are open-toed shoes OK for potting?
I usually wouldn't, but since I've been doing this residency in L.A., I can't help it.

PHOTOGRAPH BY BORU O'BRIEN O'CONNELL FOR BLOOMBERG BUSINESSWEEK

Interview by Arianne Cohen

How Did I Get Here?

ROGER FERGUSON JR.

President and chief executive officer, TIAA-CREF

Ferguson at 3

"My father was a cartographer for the U.S. Army. Though he didn't have a lot of money, he was fascinated by banks and investments, so we spent a lot of time talking about that."

Education

Sidwell Friends School, Washington, D.C., class of 1969

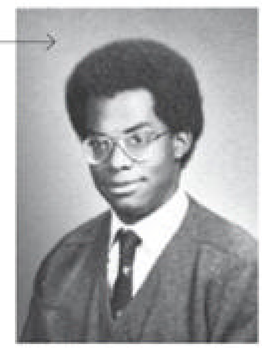
Harvard University, class of 1973

Harvard Law School, class of 1979

Harvard University, class of 1981

"I studied economics, and cleaned bathrooms on dorm crew."

Harvard yearbook, 1973



"I got my Ph.D. in economics. My mother taught me to stay in school as long as you can. She was a public school teacher."

"Because I was older, I was able to put the pressures of being a first-year lawyer into context."

Work Experience

1981–84
Attorney, Davis Polk & Wardwell

1984–97
Associate, director of research and information services, partner, McKinsey

1997–99
Member, Board of Governors, U.S. Federal Reserve

1999–2006
Vice chairman, Board of Governors, U.S. Federal Reserve

2003–09
Overseer, president, Board of Overseers, Harvard University

2006–08
Head of financial services, Swiss Re; chairman, Swiss Re America Holding

2008–Present
President and CEO, TIAA-CREF

Being sworn in by Alan Greenspan to his second term as Federal Reserve vice chairman in 2003

Brimmer

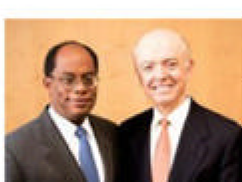
"Lyndon Johnson nominated the first black governor of the Fed, Andrew Brimmer, when I was 15. From then on, I was completely enamored."

"I didn't think it was appropriate to go from being a bank regulator to a banker. Reinsurance is the other big part of financial services."

"I was the only governor in Washington on 9/11, so I led the response: keeping the Fed open, providing ample liquidity to backstop the banks, and sending extraordinary amounts of cash to avoid having ATMs run out of money."

Giving the commencement speech at St. Lawrence University in 2013

"We provide financial security for folks in the not-for-profit sector and manage huge amounts of money—just shy of $900 billion."



With former TIAA-CREF CEO Herb Allison on Ferguson's first day in 2008

"I have a very academic-y background for a CEO, which gives me empathy."

Life Lessons

1. "Careers are climbing walls, not ladders." **2.** "There's no job too small to do well." **3.** "The one thing no one can ever take away from you is your knowledge."

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